

THE DOMINION OF CANADA

Its growth and achievement; its relation to the British Empire; its form of government; its natural and developed resources; its home and foreign trade; its national finances; its banking and currency system; and its railroads and its shipping.

By
HARVEY E. FISK



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To the Reader

THE best customer of the United States in the American hemisphere is the Dominion of Canada and, with one exception, she is also our best customer among all the nations of the world. That one exception is Great Britain.

In view of this fact the Bankers Trust Company has been led to prepare this book in order that the company, its stockholders, clients and friends might have at hand for ready reference reliable data about Canada.

Because of the active coöperation of Canadians in public and private life, acknowledgment of which is made elsewhere, we have reason to believe that the data gathered here are authoritative.

If the book proves to be useful to our friends, and especially if it helps to strengthen the bond of union between business men on either side of that 3000 miles of "unfortified boundary line" stretching from the Atlantic to the Pacific, we will be fully rewarded for our effort.

BANKERS TRUST COMPANY

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The Dominion of Canada

CHAPTER I

The Land of Achievement

THE characteristic of the Canadian people which most impresses the observer is that of determination and achievement.

Vision and courage were necessary to bring the Canada of 1867 and the provinces of Nova Scotia and New Brunswick—with their sparse combined population of less than three million—into a confederation. It took courage, in 1870, to bring into the confederation the almost limitless territory stretching westward to the Pacific and northward to Hudson Bay and the Arctic Seas.

It took courage to link together this empire, greater in square miles than our own United States, by railroads running into the untrodden wilderness, and not only was this done, but now three lines stretch across the continent with numerous branches tying together the manufacturing East and the wheat-raising West and the mining North, and making possible, with their connecting steamship lines, an all-British highway around the world. The Canada of fifty years ago had no factories. They were created, and now Canadians manufacture many of the commodities which they require and are becoming exporters of manufactured goods.

For nearly fifty years the men of Canada were busy conquering the wilderness, subduing nature, breaking up the prairies into great grain fields, developing vast forest tracts,

opening up mines of gold and silver, copper and lead, coal, asbestos, nickel, and other minerals; building cities, providing a splendid educational system with its common schools, high schools, colleges and universities; organizing and developing one of the best banking systems in the world and bringing into full flower a representative government admirably adapted to meet the problems of a great democracy.

Then came the great war. Canada was ready. Immediately she set about mobilizing her man-power. Great armies were transported over the sea and at once they began "to do things." If there was a difficult position to be held, a hard battle to be fought, an important post to be taken—the Canadians made good. They had conquered the wilderness. By the use of the same quiet determination, the same habit of achievement, they could and would conquer the enemy.

Did Great Britain need food and ammunition, the Canadians could and would supply them and on credit too. So far as her own armies were concerned, not only did they fight for the empire, but Canada paid their bills. The war cost Canada nearly sixty thousand lives and over a billion and three-quarters in money. This gift of men and money in defense of the Empire came from a people of less than nine million.

Needless to say, such a record of achievement as is afforded by the history of Canada during the fifty-odd years which have elapsed since "Dominion Day" 1867 is not due to chance. Canada has been fortunate during this period in having in political life and in business a group of able, resourceful, morally strong, patriotic men who were not alone capable in action but capable in leadership. They could not have achieved if there had not been working with them a splendid body of intelligent, determined and resourceful citi-

zenry, men and women of moral force and courage such as a new country alone seems to develop.

The Canadians are looking forward to great growth in population and in developed resources before the first century of their national life is rounded out. There is every reason to expect that such a growth will come. The Canada of today, with the impetus gained from its progress in the past fifty years, will without doubt develop during the next fifty years into a very powerful nation.

As an evidence of Canada's phenomenal development the latest available figures indicate that the dominion in relation to nine other industrial countries now stands first in area, second in potential water power, third in total railway mileage, fifth in total exports, sixth in pig iron production, total exports and foreign trade and eighth in population.

The friendship between the Canadian people and ourselves is traditional. Canada interchanges more business with us than with any other nation, not excepting the United Kingdom. We have only one greater customer than Canada and that one is the United Kingdom. Our friendship and our intellectual and business interests must commingle more and more. Canada has scarcely begun to grow. Her friendship and her business will be increasingly worth while. We have nothing to fear from her efforts to develop her resources and her manufacturing enterprises. Such development will only increase her need for greater quantities of goods from outside and her ability to pay for them. As her nearest and most convenient market we will have only ourselves to blame if we do not hold our present trade merely, but also add immeasurably thereto.

In the future we shall meet Canada more and more in friendly rivalry for trade in Spanish America, in the Orient

and elsewhere. Canada's system of branch banking has unquestionably assisted her greatly in inaugurating and developing trade in the West Indies and the countries bordering on the Caribbean Sea. She is now reaching out for trade to the Orient. Her habit of achievement will stand her in good stead in this new departure. It is interesting to know that in this last effort the banking interests of Canada and the United States are in partnership—a happy augury and example for future joint efforts at building up trade outside of our own countries.

The following pages have been prepared with the purpose of giving American business men a more intimate knowledge of our northern neighbor and thus strengthening the bonds between us and increasing the interchange of business to the mutual advancement of the two countries.

CHAPTER II

Canada in the Great War and Today

IT is the proud boast of the Canadians that they were in the war from the very first. Canada raised and equipped at her own expense an army of 595,441 men, whose bravery is attested by the words of many witnesses and by the mute testimony of the white crosses standing "row on row" in Flanders fields.

Achievements of the Army

Of the total number enrolled, nearly 80 per cent., or 465,984 men, were obtained by voluntary enlistment. The first division of Canada's expeditionary forces landed on the other side of the Atlantic in the late Summer and early Autumn of 1914 and after three months additional training in England arrived in France on February 11, 1915. The total number of men that served overseas was 418,052. The casualties amounted to 218,433. One cannot use round numbers when speaking of casualties. Of the total, 35,684 were killed in action, 12,437 died of wounds and 155,839 were wounded, the remainder having died of disease, died in Canada, or been posted as missing. The more notable engagements in which the Canadian troops fought were, in 1915, in the second battle of Ypres on April 22, and again in Festubert and Givenchy in May and June. In 1916 the Canadians were very heavily engaged at St. Eloi and at Sanctuary Wood and Hooge. In September, October and November the four Canadian divisions fought in the Battle of the Somme and Courcellette, Moquet Farm and the Kenora, Regina and Desire trenches.

In 1917 the Canadian troops bore the largest part in taking Vimy Ridge and Arleux and Fresnoy, on April 28 and May 3, and fought with great success in the advance on Lens and the taking of Hill 70 in August. In 1918 the Canadian corps was in the center of the western front in the second battle of Amiens, August 8 to 17, advancing fourteen thousand yards on the first day, the deepest advance made in one day during the war. In the battle of Cambrai, which lasted from September 27 to October 9, the Canadians after heavy losses took Cambrai, making large captures of men and material.

Naval Activities

While the military achievements of the sons of Canada were notable, the services rendered by Canada's little navy were also an important factor in bringing the war to a successful conclusion. At the beginning of the war the naval organization of the dominion consisted of one seagoing cruiser on the Pacific coast and one on the Atlantic. The staff of experienced naval officers was small. It immediately became necessary to develop from this insignificant organization a staff capable of superintending the transportation overseas of troops and supplies, and to provide a coast patrol service to protect commerce from the marauding German vessels and submarines, and also to maintain in coöperation with the British Admiralty an efficient naval intelligence department. The organization to accomplish this work, with one or two exceptions, was effected by the efforts of the original staff supplemented by the assistance of a few retired naval officers and many recruits from mercantile life and from among Royal Naval Reserve officers available in Canada. The best tribute to the efficiency of the organization so formed is the fact that many hundreds of thousands of men and great

quantities of supplies were transported overseas without the loss of one life through marine accident.

Rehabilitation of Returned Soldiers

The question of post-war organization for men returning from overseas was dealt with by the government of Canada early in 1915, as soon as casualties commenced to arrive in Canada. At first a commission was formed of leading business men and later a department of government, The Department of Soldiers' Civil Re-Establishment, was created to deal with the problem. The work undertaken involved the establishment and maintenance of hospitals for tuberculosis, insanity and general treatment; the provision of vocational training, including occupational therapy and ward occupation in hospital; the payment of allowances to men undergoing treatment and training; the establishment of labor bureaus, in order that the returned soldier might easily find employment; assisted settlement of returned soldiers on the land, and an adequate pension system. War service gratuities and other benefits have been passed by parliament and at the last session an act providing for life insurance without medical examination was placed on the statute book. In many directions, notably in regard to vocational training and the manufacture by the government of prosthetic* appliances, Canada was the pioneer. To a large extent the rehabilitation schemes of the other allied countries have been based on Canadian experience. The expenditures for these several purposes up to June, 1920, aggregated over \$288 million.

National Finance—The Money Cost of the War

To meet the expenses of her armed forces Canada disbursed to March 31, 1920, \$1,670 million. The total expen-

**i. e.*: Appliances for substituting in the human body some artificial part.

ditures of the dominion which may be charged to war account amount to \$2,027 million. In this total, in addition to the direct military expenditures, is included pensions, interest on the war debt and other items clearly attributable to the war. The increase in the gross amount of the national debt due to the expenses of the war up to March 31, 1920, was \$2,499 million, bringing up the total debt to \$3,043 million. The increase in the net debt was \$1,628 million. All but about \$486 million of the total debt was held at home.

The national wealth of Canada is officially estimated at \$16,000 million. Therefore these eight and a half million of patriotic people besides mobilizing seven per cent. of their number to fight, loaned their government during the war period and up to March 31, 1920, nearly 15 per cent. of the national capital, about three hundred dollars for every man, woman and child in the dominion. But this was not all, by any means. Though scattered over a vast territory, stretching from ocean to ocean and from the Great Lakes into the unknown wilderness at the north, and keenly feeling, because of these conditions, the crippling shortage of man power, they paid greatly increased taxes, kept up the production of their farms and at the same time became important producers of ships, munitions of war and clothing; while over and above this they even established credits for the mother country so that these supplies might be made available to her, without increasing the strain of "financing" upon her people.

Look at the record as given in this table of the interchange of credits between Canada and Great Britain.

(00,000 omitted)

Years ended March 31	1915	1916	1917	1918	1919	*1920
From Great Britain . .	4,9	147,9	55,9	410,9	61,9	33,8
From Canada	10,2	186,3	181,8	361,2	385,8	148,0

*To January 31

For the entire period the advances from Canada to Great Britain exceeded those from Great Britain to Canada by \$558 million. However, adjustments of various kinds had reduced the net balance in favor of Canada by March 31, 1920, to \$138 million. This was in addition to some \$200 million owed by the British government to the banks of Canada.

War Financing and the Banks

The outbreak of the war in August, 1914, found Canada in an economic position not very favorable to resisting a great strain. The redeeming feature was the strong position of the banks which has been a marked feature of Canadian finance during the entire period since that date.

Substantially the only emergency banking legislation adopted was that which authorized the dominion government at its discretion to make advances to the chartered banks by the issue of dominion notes upon the pledge of securities and which suspended for the same period the redemption of dominion notes in gold. The banks were also authorized for a period terminating two years after the conclusion of peace to make payment in satisfaction of their liabilities in their bank notes instead of in gold or dominion notes, thus practically giving to bank notes the status of legal tender for this period and they were also authorized to issue excess circulation.

The use of the facilities of the banks in connection with the financing of the war was in accordance with the best practice. Care was taken not to load them down with permanent advances to the government. The form which, in most cases, the advances to the government took was in the purchase by the banks of treasury bills, which appear to be of the same

general character as British treasury bills or our own certificates of indebtedness. As may be seen by reference to the dominion debt statement printed on a subsequent page, the maximum of "temporary loans" at the end of any fiscal year was about \$363 million on March 31, 1919. Unquestionably a substantial portion of this amount was held by investors other than the banks, so that we can see that at no time were the facilities of the banks unduly strained because of government requirements. We understand that in August, 1920, the banks held only \$75 million Dominion of Canada treasury bills. The use made of the facilities of the banks was chiefly for the purpose of tiding over periods between the placing of permanent loans.

In addition to loans to the government there were no doubt substantial loans to private investors against government securities, but the bank statements do not differentiate such loans. We find that current loans to the general public in Canada increased from \$823 million on March 31, 1914, to \$1,322 million on March 31, 1920, an increase of almost exactly \$500 million. We are advised that of such increased loans only \$125 million were made for the purpose of carrying government securities.

The facilities of the banks were used not only to assist in the distribution of dominion government securities, but also to an important extent to assist the dominion and Great Britain and, to some extent, continental countries to finance their purchases in Canada of munitions, foodstuffs and other war materials. The phenomenal wheat crop of 1915 gave to Canada at the very outset an enormous exportable surplus and the huge war orders placed by Great Britain gave rise to a great degree of commercial prosperity in industrial centres. The combination of the exports of foodstuffs and of manu-

factures caused a great increase in the Canadian foreign trade, which has elsewhere been commented upon, and was reflected in the marked increase in the loans and deposits of the banks. At the time of the armistice the banks were lending to Great Britain \$200 million, which included advances made on behalf of the British government for carrying a large part of the wheat crop of 1918. The dominion government also made advances directly to the imperial government for this last purpose, part of which the banks took up in the shape of dominion government treasury bills. At the same time the banks were making other substantial advances to the dominion government.

The advance of \$200 million to the British government is represented by British government treasury bills. These constitute a substantial part of the approved securities referred to on page 40, as held by the dominion government under the Finance Act of 1914 against the dominion note issue. Thus this advance, of which \$50 million has been repaid, while technically made by the banks actually came from the dominion treasury in the form of dominion notes issued to the banks in exchange for the British treasury bills.

A study of the comparative tables of assets and liabilities of the chartered banks discloses the fact that the total resources of the banks increased about 100 per cent. from March 31, 1914, to March 31, 1920. The deposits of the general public in Canada have approximately doubled, increasing from \$991 million to \$1,855 million. While the increase in the assets and the liabilities of the banks reflect, as in the case of other countries, an inflation of credits made necessary for the purpose of war finance, such increase is unquestionably to a great degree due to an actual and probably a permanent increase in business activities—Canada's legitimate reward

for her efforts to assist in the maintenance of law and order throughout the world.

Canadian Industries and the War

The war acted as a great stimulus to all lines of Canadian productive effort. Agricultural production was maintained at a high level, while the war prices brought unusual prosperity to the agricultural classes.

The military requirements of the government and of the mother country and allied nations led to intensive efforts along manufacturing lines, while the prosperity of the farmers and of the industrial classes created an added demand for home and foreign goods of all descriptions. Therefore it is not surprising to find that one notable result of the war has been greatly to increase the importance of Canada as an industrial community. Canada has had a protective tariff for 42 years. The present dislocation in exchange, referred to more in detail elsewhere, is acting also as a further stimulus to home manufactures. Probably to-day there are employed in manufacturing pursuits at least a third more people than were so employed before the war, while some two million people, or nearly 25 per cent. of the entire population, are said to be directly or indirectly dependent for their living upon the manufacturing industries.

Thus one important result of the war to Canada has been to bring about, much earlier than would otherwise have been the case, a transition from a status where agriculture predominated to one where the manufacturing industries are of the greater importance. Unquestionably this relation will be a constantly widening one with the lapse of time. However, it will not be because agriculture will be actually of less importance, for agriculture and its kindred activities will always

be one of the fundamental resources of Canada. Her other natural resources, her mines, forests and fisheries will also become of increasing value as time goes on, especially because of the greater extent to which these products will be used in manufacturing and the arts.

In the past decade the value of Canada's agricultural products has increased more than 300 per cent. from \$663 million in 1910 to \$1,975 million in 1919. The value of manufacturing products has increased in about the same ratio, from \$1,166 million in 1911 to \$3,451 million in 1918. Statistics for 1919 and for 1920 to date are not yet available. When compiled they probably will show some decline from the war maximum but there is every indication that Canada is booked for great developments along manufacturing lines in coming years.

Foreign Trade Under War Conditions and Since

The total foreign trade of Canada in the fiscal year ended March 31, 1920, was \$2,351 million, comparing with \$1,073 million in the year just before the war, that is the year ended March 31, 1914, and with \$548 million in 1909.

Of course it must be borne in mind that price inflation as a result of war conditions to a considerable extent vitiates the value of all such comparisons of the foregoing. Still, after making liberal allowance for this fact, actual conditions today show a marked increase in productive output, and in trade done, over the pre-war status.

Canada interchanges more business with the United States than with any other nation in the world, although the trade is not a balanced trade, the imports from the United States largely exceeding the exports to our country. On the other hand, the United Kingdom is Canada's second best customer

but in her case the exports from Canada largely exceed the imports from the United Kingdom.

From the point of view of the United States, Canada has for years ranked as our second best customer, the United Kingdom coming first. The war conditions placed France ahead of Canada in 1916 and 1917. However, this was a temporary situation and the indications are that for years to come Canada will probably continue to be our most important customer next to the United Kingdom, unless the "Made in Canada" movement referred to in the chapter on manufactures assumes important dimensions. Even so, this movement, while it may change the character of the trade between the two countries, is not likely to diminish the magnitude of this international trade, as Canada is destined to grow rapidly and her requirements for coal and coke necessary to run her factories and for the raw materials of manufacture, as well as for goods in excess of her own capacity to manufacture, will steadily increase.

In the years ending respectively with March 31, 1914, 1918 and 1920, that is, with the pre-war year, the year of greatest war activity and the year following the war, the official statistics of the trade of Canada with the United Kingdom, with the United States, and with all other countries show that in 1914 Great Britain had 48.8 per cent. of Canada's export trade, the United States 38.9 per cent., and all other countries 12.1 per cent.; while the United States had 63.9 per cent. of the total import trade. In 1918, Great Britain had 54.3 per cent. of the export trade, but the United States had 82.2 per cent. of the import trade. In 1920 the United Kingdom and the United States almost equally divided 77 per cent. of the export trade, but the United States alone had over 75 per cent. of the import trade.

During the war period Canada's exports of home produce to France assumed important dimensions, increasing from \$3,632,000 in the year prior to the war to \$10,499,000 in the next year, then to \$33,703,000, then to \$64,039,000, and finally to \$201,526,000 in the year ended March 31, 1918. In the next year there was a falling off to \$96,103,000, while in the year ended March 31, 1920, the total was \$61 million. This amount was many fold that of the pre-war period. It remains to be seen whether this improvement can be maintained.

The exports to Italy had increased largely in the post-war period, amounting in the last fiscal year to over \$17 million compared with only \$514,000 in the year ending March 31, 1914.

Both import and export trade with the Americas, outside of the United States, particularly with the West Indies, is growing handsomely, while the trade with the Eastern Countries, especially with Japan, is developing to an important extent.

A change in the method of reporting trade statistics renders impossible comparisons as to the nature of the trade of the last fiscal year with that of previous years.

Both exports and imports were so largely affected by the war conditions in the former of these years that the comparative value of the data is largely diminished on that account. Still, it is evident that the trade of Canada in the first post-war year maintained, in a wonderful manner, the increase over the pre-war years which it developed during the period of the war. The exports and the imports each increased, giving an increase of \$166 million in the total trade of the country.

From an official statement we know that cartridges and other explosives accounted for about \$386 million of the ex-

ports of the fiscal year ending March 31, 1918, and for about \$251 million for the next year, but amounted to only a little over \$12 million in the last fiscal year; while in the case of the imports articles for the army and navy amounted to over \$145 million in the first of these years, just under \$56 million in the second and only a little over \$2 million in the third. Other war items cannot be so readily segregated. Thus everything points to a healthy and growing trade situation on a much higher level than that of the pre-war period and with a readjustment in the relative importance of the various products where, while the actual volume of agricultural and animal products will probably increase rather than diminish, their proportionate value will decrease because of the growing importance of the products of the mine, the forest, and of manufactures.

Foreign Trade in the First Quarter of 1920

The business of Canada with the United Kingdom and foreign nations established a new record in the first quarter of the present fiscal year (April to June, 1920, inclusive), when the total trade reached \$583½ million, compared with not quite \$445 million in 1919 and \$509½ million in 1918.

Imports from the United Kingdom and the British Dominions overseas increased in a marked way while exports decreased in a surprising manner. The result was that imports and exports about balanced while in each of the other two years under review the exports amounted to almost exactly five times the imports.

In the case of trade with foreign countries we find this year a substantial increase both in exports and imports over 1918 and a heavy increase over the business of 1919 which for these months fell below the business done in 1918. As usual

the United States had the bulk of the business, the imports from our country for the three months reached the enormous total of \$221½ million, comparing with just under \$162 million in 1919 and not quite \$216 million in 1918 when much war material was passing through Canada. Exports from Canada to the United States after falling from \$103 million in 1918 to just over \$88 million in 1919 reached the record total of over \$113 million. However, this total was only a little over one-half of the imports from the United States so that on balance we are still a heavy creditor. Out of the total trade of Canada for the three months, \$583½ million, the trade with the United States was \$334½ million or just under 60 per cent.

American Investments in Canada

Not only has manufacturing by Canadians for Canadians and for export, been greatly stimulated by the war conditions, but these same conditions have attracted to Canada large amounts of American capital to be similarly employed. There are no available statistics as to the amount of American capital so used, but it must run into the millions. There are said to be in Canada some six hundred American owned plants.

The Americans have invested large sums in Canadian government, provincial and municipal securities. It is estimated that our people to-day have invested in Canada upwards of \$1,250 million as against about one-fifth of this amount in 1914. The sums annually payable to our citizens for interest, profits, freights, insurance, and so forth, probably now aggregate or perhaps even exceed \$75 million a year.

The Invisible Trade Balance

For the period of the war and since, the payments of the Canadian people in or through London for interest, profits,

insurance and freights are estimated to have aggregated some \$1,000 million, while similar payments to the United States have probably amounted to around \$420 million. The Canadian government and the Canadian banks have made advances to Great Britain and foreign countries of nearly \$400 million and Canada has repurchased around \$200 million of her own securities sold to London in pre-war years. Sales of Canadian securities in London during these seven years amounted to about \$300 million, chiefly in 1914, before war conditions became acute.

As a result of these cross currents of investment funds, interest, profits, insurance, and so forth, Canada is supposed to have paid Great Britain on balance during and since the war over \$1,250 million and to have received from the United States on balance nearly \$500 million. These large payments and receipts on account of the movement of the so-called "invisible" imports and exports added to the balances arising from the exchanges of goods have resulted in total net balances due from Great Britain and foreign countries other than the United States aggregating over \$2,000 million, while for the period Canada was debtor to the United States for over \$1,000 million.

The Dislocation of the Exchanges

Ordinarily the amount due to the United States and that due from the United Kingdom and other countries would be cleared through London and the net resulting balance settled by gold shipments or by increased investments by the Scotch, English and Continental peoples in Canadian enterprises, farm mortgages or public securities.

The dislocation of the New York-London and Continental exchanges and the consequent dislocation in the New

York-Montreal exchange has prevented the usual normal methods of settling these international balances and has brought about a situation where purchases in the United States are heavily penalized and similarly where British purchases from Canada or investments there are penalized.

In these conditions we find one of the most trying economic results of the war, results, however, which are proving to be a great stimulus to Canadian home manufacturing for home consumption, for a ten per cent. premium on New York exchange is equivalent for Canadians to a ten per cent. ad valorem tariff against American made goods and in favor of the products of Canadian factories. These matters are treated more in detail in subsequent chapters.

Railroads and Steamships under Government Control

With the exception of Germany, Canada emerges from the war as the nation of the world having the largest number of miles of government operated railways. She has also acquired as a by-product of war a considerable government owned mercantile marine. Of a total railway mileage approximating forty thousand, more than half is comprised in the Canadian national system, the operation of which in 1919 resulted in a deficit of about \$48 million. However, these results were those of a year of mixed private and government ownership and under semi-war conditions. Much better returns are looked for in the future.

During the war Canadian shipyards constructed around 900 ships for Great Britain, France, Norway and Belgium. These were many of them small vessels but among them were a number of large steel freighters. At the close of the war Canada had some seventeen steel ship-building plants

employing upwards of 20,000 men, while in 1914 she had only two similar plants.

With the completion of the government contracts the industry was faced with disintegration unless the yards could be utilized to build ships for the mercantile service. At this juncture the government stepped in, as in Canada it has a way of doing, with a view to saving the industry for the operatives and their employers and with a view to creating a government owned mercantile marine which would carry the products of Canada's fields and factories to the ends of the earth.

To own and operate the ships constructed under government auspices the government has organized the Canadian Government Merchant Marine, Limited. This company is represented in Great Britain, for the North Atlantic trade, by the Cunard Company. Announcement has very recently been made of the consummation of an important agreement between Messrs. Alfred Holt & Company (managers of the Blue Funnel Line), The Canadian Government Merchant Marine, Limited, and the Canadian National Railways, providing for the establishment of a joint steamship service between Vancouver and the Far East to be maintained by an equal number of vessels owned by each steamship interest. The Canadian Government Merchant Marine, Limited, will be represented in the Orient by the agents for the Holt interests. Thus the Canadian undertakings will secure the advantage of the facilities of an old and powerful organization. On the other hand Messrs. Holt will secure the support of the Canadian National Railways in the development of business for their steamers in the joint service.

The policy of the Canadian Government Merchant Marine, Limited, appears to be one of opening up new services, of supplementing the existing services and of working on friendly

terms with the old steamship organizations, thus securing the advantage of the co-operation of such well-managed private enterprises.

It will be of deep interest to Americans south of the international line to watch the outcome of these large scale experiments in government ownership and management of an important part of the transportation facilities of a nation. It will also be of interest to see how the privately owned and publicly owned properties get along together.

CHAPTER III

Canada's Credit Structure

OFFICIAL estimates place the national wealth of Canada (i.e., the aggregate internal wealth of the people) at \$16,000 million;† while \$2,500 million‡ may be taken as a fair estimate of the present annual national income of the dominion (i.e., the aggregate income of the people). The gross debt, aggregating \$3,043 million, amounts to only 19 per cent. of the estimated national wealth, while the annual charge for interest and for a sinking fund sufficient to pay off the whole of the gross debt in 75 years amounts to only 5.68 per cent. of the estimated annual national income.

The following tables demonstrate the stability of the Canadian public debt, the safety and convertibility of the banking and currency credit fund by means of which the trade and commerce of the dominion are largely carried on, and the additional strain—yet well within the limits of safety—that is laid upon such fund and the gold reserves by the increasing prices of commodities.

National Assets and Liabilities Compared

There are substantial assets held by the government that in the ordinary course of things will be applied to the reduction of the gross debt. These were estimated by the minister of finance in his budget speech of May 18, 1920, at \$741 million.* For the purpose of this statement, however, all

†See pages 157 and 158 for detailed calculation *See page 36.

these offsetting assets are set aside against "contingencies" in order that the burden of debt may be appraised at the maximum.

I. DOMINION DEBT STRUCTURE

March 31, 1920

(000 omitted)

Funded Debt		\$2,550,398
Temporary Loans		73,956
Special Funds		
Bank Circulation and Redemption		
Fund	\$5,959	
Savings Banks	42,000	
Trust Funds	13,500	
Province Accounts	11,920	
Miscellaneous and Banking Accounts	33,967	107,346
Dominion Notes		311,900
Gross Debt		<u>\$3,043,600</u>
National Wealth estimated at		\$16,000,000
Percentage of Gross Debt to National Wealth . .		<u>19%</u>
Estimated Net Annual Interest charge		
on whole debt	\$135,000	
Annual Sinking Fund to extinguish		
gross debt in 75 years; improved		
at, say, 3¾%	7,500	
Annual charge for 75 years to meet interest on, and		
to amortize by sinking fund, principal of gross		
debt		<u>\$142,500</u>
National Income estimated at		\$2,500,000
Percentage of Annual Interest and Sinking Fund		
charges to Annual National Income		5.68%

A Comparison of National Debts

The following tables compare the debt of Canada with that of our own country and with the debts of Great Britain, France, Italy and Germany. In every instance debts have increased since the war ended. In the cases of Canada, Great Britain and our own country the maximum seems to have been reached and a beginning made in debt reduction. France and Italy probably have also about reached the peak of their debts, but steps toward reduction will probably be slow. Reparation payments without doubt will add to the debt of Germany.

It will be noted that the incidence of the debt of Canada and of the debt charge is markedly less in relation to wealth and income and also per capita than in the case of any country included in the table except the United States.

Consideration should also be given to the growing population and the undeveloped resources of the dominion. The present population of eight and one-half to nine million should at least double itself within from seventeen to twenty years. This increase would necessarily be accompanied with corresponding—though not proportionate—increases in the national wealth and the national income. While therefore the burden of the gross debt cannot, in view of the ratios set out, fairly be considered as unduly severe, it will none the less be lightened year by year in increasing measure by the accumulating increase in population, wealth and income.

The credit structure therefore represented by the public debt may be considered sound and satisfactory.

DEBT AND INTEREST CHARGE COMPARED WITH ESTIMATED WEALTH AND INCOME OF CANADA AND OTHER BELLIGERENTS IN THE LATE WAR

APPROXIMATE STATUS AS OF JUNE 30, 1920
(000,000,000 omitted)

Nation	Debt	Wealth	Debt % Wealth	Interest	Income	Interest % Income
Canada	\$3	\$16	19.0	\$0.1†	\$2½	5.40
United States	24	300	8.0	1.0	60	1.69
Great Britain	38	120	31.6	1.7	18	9.40
*France	46	90	51.1	1.8	12	15.10
**Italy	18	50	36.0	0.7	8	9.00
Germany	63	†		2.9	†	

*December, 1919. **October, 1919.

†\$135 million. ‡Most difficult to estimate. Before the war wealth placed at \$80,000 million; income at \$10,000 million. German authorities claim heavy losses.

DEBT AND INTEREST CHARGE COMPARED WITH ESTIMATED WEALTH AND INCOME OF CANADA AND OTHER BELLIGERENTS IN THE LATE WAR

PER CAPITA BASIS

Population (In millions)	Nation	Debt per Capita	Wealth per Capita	Interest per Capita	Income per Capita
9	Canada	\$338	\$1777	\$15.00	\$277
107	United States	224	2803	9.34	560
46	Great Britain	828	2608	36.95	391
40	France	1150	2250	45.00	300
36	Italy	500	1388	19.44	222
60	Germany	1050		48.33	

Deposit and Note Circulation vs. Gold Reserves

The table printed on the next page has been constructed to show the relation between the note and deposit liabilities of Canada and the gold reserve.

II. BANKING AND CURRENCY CREDIT STRUCTURE

(In millions of dollars)

March 31	1914	1915	1916	1917	1918	1919	1920
LIABILITIES							
CURRENCY							
†Dominion Notes.	114	152	168	160	190	207	214
*Bank Notes . . .	84	86	102	131	165	185	188
Total Notes. . .	198	238	270	291	355	392	402
DEPOSITS							
Chartered Banks							
In Canada . . .	1,038	1,064	1,186	1,412	1,601	1,866	2,145
Outside Canada.	137	120	143	197	231	244	365
‡Savings Banks . .	94	93	95	112	100	109	97
*Total Deposits	1,269	1,277	1,424	1,721	1,932	2,219	2,607
Credit Structure . .	1,467	1,515	1,694	2,012	2,287	2,611	3,009
GOLD RESERVES							
BANKS							
In vaults	46	66	66	72	78	80	80
In Central Gold Reserve . . . .	....	....	2	12	19	17	10
GOVERNMENT							
Against Savings Deposits	5	5	5	5	5	5	4
Against Dominion Notes	96	90	116	113	114	116	100
Total Gold Reserves . . .	147	161	189	202	216	218	194
% Credit Structure . .	10.0	10.6	11.1	10.0	9.4	8.3	6.4

†Total outstanding, less notes in "Central gold reserves."

*Total outstanding, less "notes other banks" held as assets.

‡Exclusive of deposits in Trust Companies and Savings, Loan and Mortgage Companies which are not employed in financing trade and commerce.

§See table page 57.

The structure of banking and currency credit representing the "credit fund" by means of which the trade and commerce of the country is largely financed may be approxi-

mately measured by the banks' deposits and by the bank notes and the dominion notes in circulation as above set out. The foundation of this credit structure is of course the gold reserves held in respect thereof. Upon their sufficiency public confidence in the soundness of the structure and the convertibility of the obligations comprising it largely depends. A study of the foregoing table develops the facts that the gold reserves held there-against increased about 48 per cent. during the war period but that since then they have gradually decreased.

From the beginning of the war until the armistice the gold reserves were maintained at about ten per cent. of the credit structure. Since then they have shown a tendency to fall until in recent months they have averaged only a little over six per cent. This compares with a reserve for Great Britain, similarly calculated, of slightly over five per cent. and for the United States of just under seven per cent.

The shareholders of the Canadian chartered banks are subject to double liability—in case of necessity—in respect of their capital stock holdings. Hence the structure is further protected by the double liability of the shareholders of the banks, by the liability of the dominion government for the uncovered dominion notes in circulation and for the uncovered post office and dominion government savings banks deposits and by the surplus assets of the chartered banks over and above the gold reserves. These reserve resources together with the gold reserves above mentioned amounted on March 31, 1920, to approximately \$400 million in excess of the sum of the above credit fund and of all other liabilities of the banks, not included therein. Hence the soundness of the structure and the convertibility of the obligations comprising it seems well assured.

Increased Prices and the Credit Structure

The following table gives for the past six years in comparative form the index number for wholesale prices as officially determined by the Canadian Department of Labor. The increase, actually and in percentage, over the 1914 index number has been calculated.

III. PRICES

Year ended March 31	1914	1915	1916	1917	1918	1919	1920
Commodities Index							
Number	137	145	178	225	269	277	349
Increase over 1914. ..	..	8	41	88	132	140	212
% Increase . . . .	..	5.84	29.9	64.2	96.35	102.18	154.74

The increase in prices shown by the above table, partly caused by the inflation of credits and partly the effect of the unusual demand for goods and services brought about by the war, has obviously greatly increased the strain of financing which has to be borne by the banking and currency credit structure and the gold foundation thereof. This is a condition from which most countries are suffering at the present time. It is interesting to compare the trade financing power of the credit structure or fund as set up in Table II (which may be called the "demand credit structure") on March 31, 1920, with the power it would have possessed had the 1914 level of prices been then in force. The whole fund of \$3,009 million would have financed in 1920 the purchase and sale on the 1914 level of prices of, say, 22 million units of commodities of the value of \$137 each, in a given unit of time; while on the 1920 level of prices it would have financed only the purchase and sale of 8.6 million of the same units of commodities, of however the increased value of \$349 each, in the same unit of time. The trade financing power of the fund therefore

in 1920 was only 39 per cent. of what it would have been had 1914 prices prevailed. This shows the need for emergency currency and credit if the financial machinery of trade and commerce is to be kept going, and because of the vital necessity to the world of that machinery, it justifies the creation, within limits, of such emergency currency and credits; while, at the same time, it shows how a fall in prices will release the emergency currency and credit from employment and increase the efficiency of normal resources.

The Gold Foundation

Coming now to the gold foundation of the structure—

On the basis of the 1920 gold reserves of 6.4 per cent., the credit required to finance one unit of trade on the 1914 price level of \$137 per unit would call for gold cover of \$8.77, while the credit required to finance the same unit of trade on the 1920 price level of \$349 per unit would call for a gold cover of \$22.34. That is to say, \$100 of the gold reserves of 1920 would have supported credit sufficient to finance 11.4 units of trade on the 1914 price levels, while it would only support credit sufficient to finance 4.45 units of trade on the 1920 price level. Hence the trade supporting efficiency of gold on the 6.4 per cent. standard was in 1920 only 39 per cent. of what it was in 1914. The loss in efficiency of the trade financing power of the credit structure of 1920 is, therefore, obviously the same as the loss in efficiency of the trade supporting power of the gold foundation of the structure in 1920, but in the interest of clarity it has been set out in detail. This shows the additional strain that the financing of trade and commerce under the influence of increasing prices has laid upon the gold reserves, while at the same time it illustrates the automatic recovery of underlying gold strength that falling prices will bring about.

Canadian bankers expect their gold resources to be increased some \$150 million by the repayment, within the next twelve months, by the British government of advances heretofore made by the banks. This payment is relied upon to assist materially in reducing the credit inflation which now exists, and to help in reestablishing the percentage of gold to credit liabilities.

The Present Credit Situation

The statement of the chartered banks for June 30, 1920, reflects no apparent check to the expansion in bank credits, for deposits are still increasing and the loan accounts continue to grow. It is gratifying to observe that government expenditures for the first quarter of the current fiscal year have decreased around 50 per cent. from the expenditure of the same quarter of 1919, while revenue receipts have increased over 36 per cent. The debt appears to have about reached its maximum. The temporary debt, the most dangerous form of debt so far as inflation of credits is concerned, shows a marked decrease from the maximum of about \$363 million reached in 1919, being on June 30, 1920, not quite \$89 million. Therefore, it would seem that there would be realized the expectation of the finance minister expressed in his budget speech delivered last March that "the revenue of the year and cash assets available should at least not only carry current expenditure but retire" certain floating obligations maturing during the year aggregating around \$74 million.

On a critical examination, therefore, of the financial position of the dominion it must be admitted that the dominion debt is well secured; that the banking and currency credit structure by means of which trade and commerce are largely

carried on, while considerably expanded, is sound; that while high prices have laid a strain—in common with most countries—upon that structure and its gold foundation, neither is as yet unduly strained; and that on the whole the financial position of Canada is at present satisfactory with every promise of increasing strength in the future.

CHAPTER IV

The Dominion Finances

THE Canadian national finances are well managed. The annual income for several years preceding the war exceeded the annual expenditure by a substantial amount, say in excess of \$40,000,000.

The financial policy of the government during and since the war has been directed along two main lines: First to funding the war indebtedness so as to postpone its maturities to periods well beyond the end of the war; and secondly, by increased taxation on the one hand and reduction of current expenditures on the other, to be in a position to meet from annual income all annual outlays, including increased interest and pension charges and in addition a substantial amount of the war expenditure itself.

National Revenue and Expenditure

Comparative tables of receipts and expenditures for the six fiscal years ending March 31, 1920, follow. The statistics for the year 1914, the last year prior to the war, are given for comparative purposes. It will be noticed that the total expenses for the war period and the subsequent "clean up" period amounted to \$3,143 million. Of this sum 47.72 per cent. was raised from taxation and other revenue receipts, while 52.28 per cent. was borrowed. Our estimate of the cost of the war to the dominion to March 31, 1920, is \$2,027 million. The increased net debt of \$1,642 million is 81 per cent. of this amount; thus 19 per cent. of the war cost appears to have been met by taxation.

DOMINION EXPENDITURES

(00,000 omitted)

Years ended March 31	1914	1915	1916	1917	1918	1919	1920	Total 1915-20
ORDINARY								
Debt Charge	15,0	18,0	24,0	38,0	52,0	80,0	108,0	320,0
Provinces								
Subsidies to	11,0	11,0	11,0	11,0	11,0	11,0	11,0	66,0
Collecting Revenue—								
Customs	3,8	3,8	3,7	3,7	4,0	4,3	4,6	24,1
Excise	0,8	0,8	0,9	1,0	1,2	1,1	1,2	6,2
Income and Business profits . . . .	....	....	....	....	0,1	0,5	1,0	1,6
Post Office	12,8	16,0	16,0	16,3	18,0	19,3	20,7	106,3
Dominion Lands	3,3	3,7	3,4	2,8	2,5	2,2	4,7	19,3
Railways	14,9	13,9	20,7	27,1	34,8	45,5	49,8	191,8
Militia and Defense	11,0	10,0	5,0	4,0	4,0	3,3	5,0	31,3
Pensions	0,3	0,4	1,0	3,0	8,0	18,0	26,0	56,4
Civil Government	6,0	6,0	6,0	6,0	7,0	7,0	8,0	40,0
Public Works	19,0	19,0	12,0	9,0	7,0	6,0	9,0	62,0
Other items	26,4	33,0	26,0	26,0	28,0	33,8	100,0	246,8
†Total	127,0	135,6	129,7	147,9	177,6	232,0	349,0	1,171,8
*EXTRAORDINARY								
Capital Expenditures	37	41	39	27	43	25	70	245
Railway Subsidies	19	5	1	1	1	....	....	8
War Loans—Expenses and Discounts	2	5	3	15	10	—7	18	44
War . . . . .	....	61	166	306	344	446	347	1,670
Total	58	112	209	349	398	464	435	1,967
†Total Expenditure	186	248	340	498	576	697	784	3,143
Deduct 1914 . . . .	....	186	186	186	186	186	186	1,116
Cost of the War . . . .	....	62	154	312	390	511	598	2,027
Net Borrowings . . . .	....	115	167	266	316	384	394	1,642
% Cost of War	185.48	108.44	85.26	81.03	75.15	65.88	81.00

†Includes sundry small items. *From this point 000,000 omitted.

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DOMINION RECEIPTS

(In millions of dollars)

Year ended March 31	1914	1915	1916	1917	1918	1919	1920	Total 1915-20
REVENUE								
Customs	105	76	99	134	144	147	169	769
Excise	21	21	22	24	27	30	43	167
War-Tax . . . . .	....	....	4	16	25	56	82	183
Post Office	13	13	19	21	21	22	24	120
Railways, etc.	13	12	18	24	27	38	42	161
Dominion Lands	3	3	2	4	4	4	5	22
Interest on Investments	2	3	3	3	4	7	17	37
Other Items	6	5	5	6	7	9	8	40
Revenue	163	133	172	232	259	313	390	1,499
<i>Per cent. Total</i>	<i>87.63</i>	<i>53.63</i>	<i>50.74</i>	<i>46.59</i>	<i>45.04</i>	<i>44.91</i>	<i>49.74</i>	<i>47.72</i>
Borrowed—Net	23	115	167	266	316	384	394	1,642
<i>Per cent. Total</i>	<i>12.37</i>	<i>46.37</i>	<i>49.26</i>	<i>53.41</i>	<i>54.96</i>	<i>55.09</i>	<i>50.26</i>	<i>52.28</i>
Total Receipts	186	248	339	498	575	697	784	3,141

Present Methods of Taxation

The necessity for raising more revenue and checking luxurious and extravagant expenditures led to important changes in taxation being introduced in 1920 upon recommendation of the minister of finance.

The principal methods of taxation now employed for raising revenue, outside the tariff, are the "business profits war tax" which is imposed on all trades and businesses of any description carried on, or partly carried on, in Canada, and the "income war tax" which is collected from every person residing or doing business in Canada and from corporations and stock companies on their income for the preceding year. Non-residents carrying on business in Canada are required

to pay income tax on the net profit arising from such businesses. Then there is the "sales tax" of one per cent. on the duty paid value of importations by manufacturers, on sales and deliveries by manufacturers, wholesalers or jobbers. The tax increases to two per cent. on sales by manufacturers to retailers or consumers, or on importations by retailers or consumers. The "luxury tax" is paid by the purchaser to the vendor upon certain articles of wearing apparel, cigarettes, cigars, sporting goods, automobiles, and so forth, at the time of sale. Another source of revenue is the "bill stamp tax" of two cents on checks, bank drafts, money orders and short term notes, and two cents for each \$100 or fraction thereof on long term notes, demand notes, overdrafts, advances on loan agreements and on transfer of stocks or shares.

Estimated Revenue Current Fiscal Year

The latest estimates indicate that Canada will have a revenue during the fiscal year ending March 31, 1921, which will establish a record in federal receipts. From present estimates, and presuming that the new luxury and sales taxes show returns during the remainder of the year commensurate with those of the initial month of their operation, the total revenues for the year will approximate \$600 million, or an amount over 50 per cent. in excess of last year's record. This sum will be sufficient to meet all interest and pension charges, all expenditure under consolidated fund accounts and something on the principal of the dominion debt.

Some idea of the increase in taxation may be gathered from the fact that the revenues for the five years prior to the war averaged only \$137,450,000 a year, with a maximum of \$168,689,000 in 1912-1913.

Public Debt

The public debt of Canada for the same period covered by the foregoing statements of receipts and expenditures is set forth in the table on page 38. It is customary for the dominion officials and newspapers, when mentioning the public debt to refer to the net debt, that is, the debt less certain assets considered a fair offset thereto. The gross debt is of course the liability which must be met. The offsetting assets are more or less liquid. In regard thereto the finance minister made the following remarks in his budget speech delivered on May 18, 1920:

The ledger as of March 31, 1920, shows the country's gross debt to be \$3,014,483,774.12. [Since readjusted at \$3,043,600,000]. The capital accounts referred to are not deducted from this debt but the ledger, treating investments as active, deducts them from the gross debt and discloses a net debt of \$1,935,946,312.85. Beyond all question it is a matter of importance that the exact position of the country's debt should be clear. While the books are correctly kept and the entries properly made, in my opinion some of the investments cannot be characterized as active investments. They are shown as follows:

INVESTMENTS, ETC., INCLUDED IN CALCULATING NET DEBT	As of March 31, 1920
Sinking Funds	\$21,385,930.72
Canadian Northern Railway Co.	140,223,373.89
Grand Trunk Pacific Railway Co.	95,345,469.19
Grand Trunk Railway Co.	1,148,533.33
Loans to Banks	101,065,725.00
Advances to Trust and Loan Companies	3,850,000.00
Loans to Provinces (Housing)	11,740,000.00
Loans to Provinces (Farmers)	3,500,000.00
Imperial Government	171,710,168.19
Other Governments	34,336,117.75
Miscellaneous Investments	39,314,000.45
Miscellaneous and Banking Accounts	175,039,622.61
Cash	173,984,342.34
Specie Reserve	103,597,849.90
Province Accounts	2,296,327.90
	<hr/> \$1,078,537,461.27

Gross Debt . .	\$3,014,483,774.12
Less above . .	<u>1,078,537,461.27</u>
Net Debt . . .	\$1,935,946,312.85

It is obvious that the advances to the Canadian Northern, Grand Trunk Pacific, and Grand Trunk Railway Companies cannot be treated as active assets. They are not at the moment realizable; further, no interest is being paid, and in some cases the principal as well as interest is overdue. As is well known, Canada is now the owner of the Canadian Northern, receiver for the Grand Trunk Pacific, and steps have been taken for the acquisition of the Grand Trunk. While the railways have potential value, at the present time the fact is that the country itself owns the Canadian Northern and is responsible for the operation of the Grand Trunk Pacific, with resultant heavy cost to the taxpayer.

Assets which are not readily convertible, as the specie reserve is convertible, or are not interest producing, are not such assets as ought to be deducted from the gross debt. They are inactive; they are items of such a character as might well be placed in a suspense account. At any rate, whatever may be their future value, however great it may be, they are not assets of such a character as to directly reduce the gross debt any more than the other capital accounts of the country ought to be deducted from it.

I would therefore reduce the deductions made from the gross debt by the railway items already referred to, and on the same grounds after making a study of the amounts making up the \$39 million odd charge to miscellaneous investments, I would reduce that item by \$11,015,951.20, and the item, miscellaneous and banking accounts, of \$175 million odd by the sum of \$56,592,463.12. While the charge against the imperial government is correctly stated as of the above date, beyond all question there are further contra accounts of the imperial government which will approximately reduce this credit item by some \$33,033,333.34. The result of providing for this contra account and of treating the inactive items as items that ought to go in suspense or capital account is to reduce the investments included in calculating the net debt by \$337,359,124.07 [thus making net deductible assets, \$741,178,337] and to increase the net debt as shown from \$1,935,946,312.85 to \$2,273,305,436.92.

DOMINION DEBT
Comparative Statement, 1914-1920
 (00,000 omitted)

Years Ending March 31	1914	1915	1916	1917	1918	1919	1920
LIABILITIES							
FUNDED DEBT—							
Payable in Canada.	7	7	100.3	340.3	881.5	1,475.9	2,063.5
Payable in London.	302.8	338.4	362.7	362.7	362.7	362.7	336.0
Payable in N. Y. . . . .	.....	.....	.....	75.9	75.9	75.9	150.9
Temporary Loans	8.3	81.1	183.0	300.3	183.3	362.9	73.9
Bank Circulation							
Redemption Fund	5.5	5.6	5.4	5.7	5.8	5.9	5.9
Dominion Notes	117.8	157.1	178.0	183.3	250.8	289.2	311.9
Savings Banks (P.O. and Dom. Govt.).	55.6	54.0	53.5	56.2	53.4	53.1	42.0
Trust Funds	10.3	10.4	10.4	10.6	11.3	11.9	13.5
Province Accounts	11.9	11.9	11.9	11.9	11.9	11.9	11.9
Miscellaneous and Banking Accounts	31.4	41.3	31.8	35.1	26.7	27.2	33.9
Gross Debt	544.3	700.5	937.0	1,382.0	1,863.3	2,676.6	3,043.6
Increase over pre- vious year. . . . .	.....	156.2	237.5	445.0	481.3	813.3	367.0
ASSETS							
Investments—							
Sinking Funds	9.1	10.8	12.6	14.0	17.2	18.7	22.3
Other Investments	171.3	190.3	219.2	224.9	233.0	310.5	405.1
Province Accounts	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Miscellaneous and Banking Accounts	25.7	47.7	87.7	261.6	418.9	770.6	649.7
TOTAL ASSETS	208.4	251.1	321.8	502.8	671.4	1,102.1	1,079.4
TOTAL NET DEBT	335.9	449.4	615.2	879.2	1,191.9	1,574.5	1,964.2
Increase over pre- vious year. . . . .	.....	113.5	165.8	264.0	312.7	382.6	389.7
National Wealth	11,116.5	12,000.0	13,000.0	15,000.0	15,000.0	16,000.0	16,000.0
Gross Debt, Per Cent Wealth	4.04	5.83	7.21	9.21	12.42	16.73	19.00
Interest Charge	12.9	15.7	21.4	35.8	47.8	77.4	135†
National Income	1,500.0	1,500.0	1,800.0	2,000.0	2,500.0	2,500.0	2,500.0
Charge Per Cent. In- come . . . . .	.86	1.04	1.18	1.79	1.91	3.09	5.40

On account of omitted figures totals may exceed sum of items. †Estimated.

†The gross debt for 1920 given in table is slightly larger than the figure used in the budget speech. This is probably because the latter figure was changed by later adjustments in the accounts.

CHAPTER V

The Currency

THE Canadian monetary system is based on the British gold standard, with a subsidiary silver and bronze coinage. The coinage is now struck at the royal mint, Ottawa. The gold coins of unlimited legal tender prescribed by the Currency Act are:

The British Sovereign—legal tender for $\$4.86\frac{2}{3}$ of Canadian currency;

The Canadian and the U. S. A. \$5.00, \$10.00 and \$20.00 gold pieces—interchangeable; and

A special \$2.50 Canadian gold piece which, however, has not yet been minted.

But little gold circulates, the whole stock being chiefly held by the government and the banks for reserve purposes. Superimposed upon the gold foundation is a mixed dominion note and bank note currency the principal features of which are as stated hereunder.

Dominion Notes

The dominion government is authorized to issue currency notes known as "Dominion Notes" up to the amount of \$50 million against a reserve in gold equal to one-quarter of that amount, and to any amount beyond this limit of \$50 million against an equal amount of gold. Dominion notes are redeemable in gold and are a legal tender in every part of Canada except at the offices at which they are redeemable; hence they are practically gold certificates. The banks are required to hold not less than 40 per cent. of their Canadian cash reserves in dominion notes. Under the emergency

legislation begotten of war conditions the dominion government is, however, duly empowered to authorize, in its discretion, for a period expiring at the end of two years after the conclusion of peace, the making of advances to the chartered banks by the issue of dominion notes upon the pledge of approved securities and to suspend for the same period the redemption in gold of dominion notes.

The following table sets out the status of the dominion notes on June 30, 1920:

DOMINION NOTES			
June 30, 1920			
Notes outstanding			\$292,016,000
Reserves			
Gold	\$95,538,000		
Covered by approved securities			
under Finance Act, 1914 . .	138,036,000	233,574,000	
Uncovered		\$58,442,000	
Gold per cent. notes outstanding			32.71

Bank Notes

The circulating medium principally in use, apart from dominion notes, is bank notes. These are issued in denominations of \$5.00 and multiples. The chartered banks are authorized to issue such notes up to the amount of their unimpaired paid up capital. On such issues there is a tax of one per cent. per annum. During the period of the movement of the crops (Sept. 1 to Feb. 28-29) the banks may also issue "excess" circulation to the amount of 15 per cent. of their combined unimpaired paid up capital and "rest" or "reserve" funds, i.e., their surplus funds. They pay interest on the "excess" at the rate of 5 per cent. per annum. They may further increase their circulation by depositing an equivalent amount

of current gold and/or of dominion notes in a central gold reserve controlled by trustees appointed for the purpose. The notes issued against the deposits in the central gold reserve are subject neither to tax nor to interest. There are penalties for issuing notes beyond the authorized limits.

Ordinarily the notes are not legal tender but they are payable on demand and the banks are required to insure that they circulate at par throughout the dominion. This is accomplished through the operation of the provision of the banking law which requires a bank when its notes are presented by any other bank to redeem them in legal tender, that is in dominion notes or gold. By this provision an over issue of bank notes is prevented. This daily redemption of bank notes is the key of the whole banking position.

However, under the emergency legislation already referred to in describing the dominion notes, the dominion government was also empowered, in its discretion, for a period expiring at the end of two years after the conclusion of peace (July 31, 1919, for the United Kingdom, but no date has as yet been named by the Canadian government), to authorize the several chartered banks to make payments in satisfaction of their liabilities in their respective bank notes, instead of in gold or dominion notes. Thus the duly authorized issues of bank notes were practically given the quality of legal tender for the period. The banks also were authorized until August 31, 1920, to issue during the entire year "excess" circulation to the amount of 15 per cent. of their unimpaired paid up capital and "rest" or "reserve" funds upon the terms that interest at the rate of five per cent. per annum be paid upon the "excess" so issued. As yet no steps have been taken to extend this period as the usual annual period for emergency circulation became effective on August 31, 1920, for a period

of six months. There is, therefore, ample time to consider the need of further action in this direction.

Bank notes are secured by a first lien on the assets of the issuing banks and by the "bank circulation redemption fund." All banks contribute to the latter fund on the basis of five per cent. of their average circulation, on which basis the fund must be maintained after providing for outgoings. The purpose of the fund is to secure the payment in full of notes of any bank that may become insolvent. When a bank suspends payment, its notes in circulation bear interest at the rate of five per cent. per annum from the date of suspension to such date as may be fixed for the payment thereof. In the net result the notes of each bank are practically guaranteed by the banks at large, while the interest bearing provision prevents the notes of an insolvent bank from falling to a discount between the date of suspension and the date when the liquidator gives notice that he is prepared to pay them.

Total Circulation

On June 30, 1920, there were outstanding notes as follows:

Dominion Notes	\$292,010,000
Chartered Bank Notes	227,775,000
Total	<u>\$519,791,000</u>
Deduct Dominion Notes held in Central Gold Reserve about	90,000,000
Net Note Circulation	<u>\$429,791,000</u>
or about \$48 per capita.	

The per capita circulation of the United States is now about \$54, while that of the United Kingdom and Ireland is about \$50. These figures do not include subsidiary coins which for Canada amount to \$3.26 per capita; the United Kingdom, about \$7.39; and the United States, \$3.16.

CHAPTER VI

The Banks and Banking System

THE regulation of banking, the incorporation of banks and the issue of paper money fall exclusively within the legislative authority of the dominion or federal parliament. There are no "provincial" banks corresponding to American "state" banks. Banking generally is regulated by the bank act which while usually revised at the end of ten year periods is none the less subject to amendment by parliament at any time. The last general revision took place in 1913. The decennial revision of the bank act has the effect of continuing in force for the ensuing period of ten years the charters or acts of incorporation of the several banks to which the act relates, subject of course to the operation of forfeiture and other terminating provisions.

The Chartered Banks

The banks established under the bank act are commonly called "chartered banks" and are authorized to open branches and agencies; to deal in coin and bullion; to deal in, to discount, and to lend money on the security of bills of exchange and other negotiable securities and the stocks, bonds, debentures and obligations of municipal and other corporations, and dominion, provincial and other public securities; and to carry on generally the business of banking—but, among other things, the direct lending of money upon the security of shares in the capital stock of any chartered bank and upon the security of real estate is prohibited. The design of the two important prohibitions stated is to give reality


to the "paid up capital" of the chartered banks as a whole, and to keep their resources liquid by preventing the locking up thereof in immovable property.

How the Banking System Functions

Canada has a very flexible banking system. The banks have perfect control of the credit situation by reason of the fact that there are but eighteen chartered banks in the dominion, which banks have over four thousand branches located in all portions of the dominion and Newfoundland; also in Great Britain and in foreign countries as more fully noted in a later paragraph. Thus the banking and credit system is under the supervision of a few large and powerful and well managed institutions headed by trained bankers. Through the branch system they are able to keep closely in touch with every part of the country and to obtain accurate information regarding the status of any industry, both local and general, and of any borrower. As has been well said: "The credit facilities of the country, like the bank note issues, follow where the need exists and the situation is always under control. It is the case of a few men working together against many individuals working alone."

The Credit System

The Canadian banks are able to extend a line of credit to borrowers much larger than would be considered safe under any other system of banking. The secret lies in the fact that a borrower cannot seek credit indiscriminately. By custom he must deal with one bank, or, at most, in exceptional cases, with two or three, and then only by common consent; thus the lending bank becomes very closely in touch with the business of the borrower.



CHARTERED BANKS—STATUS OF EACH BANK

Arranged according to magnitude of assets.

ASSETS

June 30, 1920

In Dollars: 00,000 omitted

	Gold	Dominion Notes	Deposits to Secure Circulation *	Notes of Other Banks	Due from Other Banks in Canada †	Due from Other Banks Elsewhere ‡	Investment Securities	Call Loans	Other Loans	Loans to Dominion, Provinces and Cities	Other Assets	Real Estate Including Mortgages and Bank Premises	Lia-bilities of Customers and Acceptances	Total Assets
Royal Bank of Canada	14.3	24.3	24.8	22.8	28.2	27.8	51.4	71.9	293.9	7.1	0.4	10.0	10.3	587.2
Bank of Montreal	24.8	47.5	18.2	4.3	20.5	20.6	57.3	104.8	221.4	29.4	0.7	5.6	7.8	562.9
Canadian Bank of Commerce	14.4	21.2	13.9	2.8	14.7	9.8	45.3	46.8	251.5	14.1	0.9	7.2	13.3	455.9
Bank of Nova Scotia	12.0	8.8	13.0	3.1	12.5	6.8	38.8	23.8	109.4	4.4	0.4	5.7	0.8	239.5
Merchants Bank of Canada	4.1	5.8	5.9	1.5	11.1	2.2	25.4	12.0	119.3	4.0	0.5	4.0	2.5	198.3
Union Bank of Canada	1.1	12.5	1.0	0.9	6.3	4.3	21.3	9.3	90.9	10.7	0.2	1.4	4.4	164.9
Dominion Bank	2.1	13.8	4.3	1.2	4.8	2.7	18.1	14.2	69.8	0.5	0.3	5.8	2.6	140.2
Imperial Bank of Canada	2.6	7.9	7.4	1.3	6.3	3.4	17.7	6.9	63.4	6.0	1.2	6.0	0.3	130.4
Bank of Toronto	1.0	10.0	3.2	0.8	5.0	0.7	13.7	4.8	55.9	1.7	0.4	3.6	1.7	102.5
Standard Bank of Canada	1.8	6.2	3.0	0.5	3.8	0.8	12.2	2.8	57.4	1.5	0.2	1.6	1.0	92.8
Molson's Bank	0.6	3.1	2.2	0.6	5.6	1.9	13.0	8.4	51.0	1.2	0.4	2.8	0.3	91.1
Bank of Hamilton	0.9	3.3	2.3	0.7	5.0	0.7	9.5	7.6	47.7	4.6	0.4	3.5	0.4	86.6
Banque d'Hochelaga	0.5	2.3	2.9	1.3	3.2	0.9	7.3	5.6	42.5	4.5	0.3	3.3	.....	74.6
Banque Nationale	0.3	1.0	3.4	0.9	2.8	0.9	13.1	4.8	38.9	1.0	0.1	2.4	.....	69.6
Banque Provinciale du Canada	0.1	2.9	.....	0.6	5.4	0.3	9.4	7.9	10.9	1.0	0.3	0.3	.....	39.1
Home Bank of Canada	0.2	1.6	0.1	0.4	1.2	0.4	4.1	2.4	14.7	0.2	0.2	1.2	.....	26.7
Sterling Bank of Canada	0.1	1.4	.....	0.3	0.8	0.3	12.8	0.1	8.7	0.2	0.3	0.4	.....	25.5
Weyburn Security Bank	.....	0.1	.....	.....	0.4	0.1	0.6	.....	2.1	0.1	0.2	0.2	.....	3.8
Total Assets	80.9	173.7	106.2	44.0	137.6	84.6	371.0	334.1	1549.4	92.2	7.4	65.0	45.4	3091.5

*Deposits in Central Gold Reserves and with Minister of Finance to secure note circulation.

†Cheques on and secured loans, including bills rediscounted and deposits made with and balances due from other banks in Canada.

‡Due from banks and correspondents in U. K. and elsewhere than in Canada and U. K.

In the case of wholesale purchasers or shippers of, or dealers in, products of agriculture, the forest, quarry and mine; or, the sea, lakes and rivers; or, wholesale purchasers of, or dealers in, live stock or dead stock or the products thereof; or wholesale manufacturers of any goods and merchandise, a bank may lend upon the security of the corresponding raw materials and products and have the same rights as it would acquire under a warehouse receipt subject, however, to the paramount lien of wage earners and salaried employees, for three months remuneration. A bank may also lend farmers money for the purchase of seed grains secured upon the resultant crops; and money upon the security of threshed grain grown upon the farm and also upon the security of live stock.

Under the operations of the Canadian law, if its technicalities are carefully complied with, the bank becomes practically the owner of the duly pledged goods of such borrowing concerns. The borrower retains the right to buy and sell, but in case of necessity the bank may take immediate possession of the pledged stock.

A large part of the commercial paper taken by the banks from borrowers is therefore secured by what is practically title to the goods in warehouses, factories and other places. Thus merchandise is actually the first security to the loan while the general credit of the borrower supplements such security.

Commercial paper transactions such as are common in the United States are but little used in Canada and, therefore, there is no field for the bill broker. Credit granted by the trader takes the form of book accounts or promissory notes. Drafts running from sight to 120 days are drawn by the seller upon the buyer under a wide and well established

CHARTERED BANKS—STATUS OF EACH BANK

Arranged according to magnitude of assets.

LIABILITIES

June 30, 1920

In Dollars: 00,000 omitted

Capital Paid Up	Rest	Surplus	Total Due Stockholders	Notes in Circulation	Due Dominion and Provincial Governments	Deposits from Public in Canada	Deposits by Other Canadian Banks	Deposits from Public Banks outside of Canada	Bills Payable	Acceptances Under Letters of Credit	Total Liabilities to Public *	Total Liabilities
Royal Bank of Canada	17.0	6.7	49.7	40.4	19.8	273.1	.....	201.7	1.2	10.3	546.5	587.2
Bank of Montreal	22.0	4.8	48.8	40.2	19.9	356.4	2.5	82.1	3.7	7.8	514.1	562.9
Canadian Bank of Commerce	15.0	3.2	33.2	29.2	37.8	292.8	0.1	49.2	0.2	13.4	422.7	435.0
Bank of Nova Scotia	18.0	1.8	29.5	22.0	8.9	140.2	0.9	36.8	.....	0.8	210.0	230.5
Merchants Bank of Canada	9.5	8.4	18.8	15.7	16.5	137.7	4.0	3.1	.....	2.5	179.5	198.3
Union Bank of Canada	8.0	5.6	2.0	15.6	18.3	101.9	0.4	13.4	.....	4.4	140.3	164.0
Dominion Bank	6.0	7.0	1.1	14.1	9.8	94.6	0.2	4.7	.....	2.6	126.1	140.2
Imperial Bank of Canada	7.0	7.5	1.6	16.1	14.0	90.0	1.0	0.5	0.6	0.4	114.3	130.4
Bank of Toronto	5.0	6.0	2.1	13.1	7.8	74.1	0.3	1.2	.....	1.7	89.4	102.5
Standard Bank of Canada	3.5	4.5	1.3	9.3	9.8	62.6	1.9	1.9	.....	1.0	83.5	92.8
Molson's Bank	4.0	5.0	1.2	10.2	6.2	61.6	0.4	0.5	.....	0.3	86.9	91.1
Bank of Hamilton	4.0	4.2	1.3	9.5	9.8	59.1	0.2	1.1	.....	0.4	77.1	86.6
Banque d'Hochelega	4.0	3.9	1.0	8.9	7.4	49.7	.....	0.8	.....	.....	65.7	74.6
Banque Nationale	2.0	2.3	0.4	4.7	9.1	43.7	.....	5.9	0.6	.....	64.9	69.6
Banque Provinciale du Canada	2.0	1.1	3.2	2.2	2.7	30.3	.....	0.5	.....	.....	35.9	39.1
Home Bank of Canada	2.0	0.5	0.1	2.6	3.7	17.7	.....	0.7	.....	.....	24.1	26.7
Scotiabank of Canada	1.2	0.5	0.1	1.8	1.2	15.6	0.3	.....	.....	.....	23.7	25.4
Weyburn Security Bank	0.4	0.2	.....	0.6	0.5	2.4	.....	.....	.....	.....	3.2	3.8
Total Liabilities	122.3	29.7	280.7	227.6	207.9	1903.3	12.2	404.1	6.3	45.6	2810.8	3001.5

*Including "liabilities not included under foregoing heads," which total \$3,873,091.

practice. The drafts are then either discounted at the bank of the drawer or are forwarded through a branch for collection and after acceptance are held until maturity. This is known as two-name paper.

Flexibility of Credit System

As we have already seen, the principal circulating medium in use is bank notes. The combination of the branch bank system with freedom of action, within the limits already explained, in regard to note issues gives to Canada a remarkably flexible banking machinery. A bank receiving deposits at Halifax, Montreal and Toronto may lend them the following day through its branches and by the issues of its own notes at Far Western points, the branches redeeming the notes, when presented, by drafts upon the head offices. Thus it is possible to keep the rate of interest in the interior and in Far Western points within one-half to one per cent. of rates prevailing in the large cities of the East on the same kind of credits.

British and Foreign Branches

In addition to their branches in the dominion, the chartered banks have branches or agencies in the United Kingdom, United States, France, Spain, Italy, West Indies, Cuba, Mexico, Central and South America, and during the past year the first financial bridge to the Orient was built. Through the medium of these branches the banks are therefore in a position to offer their clients excellent credit facilities in the United Kingdom and in foreign countries.

During the past eighteen months a new era in the foreign policy of Canadian banks has developed. At no time have so many branches been established or so many new interna-

CHARTERED BANKS COMPARATIVE STATEMENT 1914-1920

ASSETS

In Dollars: 00,000 omitted

March 31	1914	1915	1916	1917	1918	1919	1920
CASH							
Gold and Sub. Coin . . .	45.7	65.7	66.4	72.1	78.2	80.2	80.0
Dominion Notes . . .	96.2	137.4	151.2	137.4	165.1	172.6	184.1
Total Cash	141.9	203.1	217.6	209.5	243.3	252.8	264.1
DEPOSITS TO SECURE NOTES							
Minister Finance . . .	6.6	6.7	6.7	6.9	5.8	5.9	5.9
Central Gold Res. . .	3.5	5.5	12.0	35.2	79.4	108.3	108.2
Total	10.1	12.2	18.7	42.1	85.2	114.2	114.1
DUE FROM BANKS							
Cheques on them . . .	42.9	36.9	47.4	58.4	89.3	88.5	129.8
Deposits with							
Canadian Banks . . .	4.1	7.3	8.9	5.4	6.5	7.3	5.3
U. K. Banks	9.0	14.0	20.8	15.2	10.8	10.8	18.8
Other Banks	32.1	38.6	72.4	51.4	56.8	44.6	58.5
Total due from Banks	88.1	97.7	149.5	130.4	163.4	151.2	212.4
LOANS							
<i>Call and Short</i>							
Canada	69.1	68.2	81.7	76.5	74.2	87.6	128.2
Outside, do	145.2	101.9	141.9	161.6	167.3	160.1	205.2
<i>Other</i>							
Canada	823.5	769.1	770.1	843.1	886.9	1,117.2	1,322.2
Outside, do	53.3	41.7	52.7	83.6	102.3	124.0	183.6
Total	876.8	810.8	822.8	926.7	989.2	1,241.2	1,505.8
Government							
To Dominion . . . . .	.....	5.0	1.2	.....	.....	.....	.....
To Provinces	3.7	9.0	3.5	2.7	5.9	6.6	13.5
To Municipalities, etc.	31.9	41.2	36.8	29.9	50.6	42.0	62.9
Total	35.6	55.2	41.5	32.6	56.5	48.6	76.4
INVESTMENTS							
Dominion and Prov. . .	11.9	11.5	27.3	110.9	101.5	115.2	126.6
Municipal	22.8	26.9	44.4	178.9	250.4	260.0	223.7
Railway	67.6	75.9	69.7	61.4	57.5	54.3	50.9
Total Investments	102.3	114.3	141.4	351.2	409.4	429.5	401.2
OTHER ASSETS							
Overdue Debts	4.8	6.6	6.7	5.3	4.6	4.3	4.0
Real Estate	2.3	3.6	4.7	5.8	5.6	6.1	5.4
Real Estate Mtgs.	1.7	1.7	1.6	1.9	1.8	2.3	2.5
Bank Premises	43.6	47.4	48.9	49.9	52.3	53.3	57.9
Sundry Assets	3.5	2.9	4.8	4.0	2.6	2.4	3.3
Total Other Assets	55.9	62.2	66.7	66.9	66.9	68.4	73.1
CUSTOMERS LIABILITY							
a/c Acceptances	8.4	8.8	9.2	10.9	20.6	28.9	42.0
Grand Total Assets	1,533.4	1,534.4	1,693.0	2,008.4	2,276.0	2,582.5	3,023.4

tional alliances been formed. With certain notable exceptions Canadian bankers in the past have looked askance upon the foreign field, but now not only have they declared that Canadian exporters should have every facility afforded them to secure foreign markets, but in many instances the bankers have been the first to enter the new field and have opened the way to trade expansion. In some cases the banks have sent experts to practically every European country to study and report on trade openings; also experts have visited Asiatic and Pacific Island countries. The experience of Canadian bankers has developed the fact that instead of foreign branches eating up the bank's capital and drawing funds away from domestic use, on the contrary, such branches have taken in as deposits more than they have given out as commercial loans. This is shown by the fact that loans other than call loans made outside of Canada on March 31, 1920, amounted to about \$183,600,000, while deposits from the general public outside of Canada amounted to \$318,200,000.

It has been the practice for many years for the Canadian banks, as a secondary reserve and for the purpose of facilitating the heavy trade interchanged between Canada and the United States, to retain large balances in New York and to make heavy loans there in the "call money" market and in the "acceptance market." Such balances and loans obviously do not tie up capital but, on the contrary, increase the liquidity of the banks' assets.

Organization

The organization of the chartered banks of Canada is almost military in its completeness. By preference, the ranks of the official staff, practically without exception, are filled from the clerical staff which has been trained within the

CHARTERED BANKS
COMPARATIVE STATEMENT 1914-1920
LIABILITIES In Dollars: 00,000 omitted

March 31	1914	1915	1916	1917	1918	1919	1920
CAPITAL—Paid Up . . .	115.1	113.9	112.8	111.6	111.7	111.7	119.3
Rest	112.7	113.2	113.0	113.4	114.1	117.4	124.9
Surplus	19.5	17.1	17.2	22.0	23.8	25.0	27.5
Total—Capital, etc.	247.3	244.2	243.0	247.0	249.6	254.1	271.7
NOTES	96.8	96.8	114.8	148.3	191.0	214.6	225.8
Less, Notes of Other Bankers	12.9	10.8	12.8	17.5	25.9	29.6	37.4
Notes in Circulation .	83.9	86.0	102.0	130.8	165.1	185.0	188.4
GOVERNMENT DEPOSITS							
Dominion Govt.—Net	8.7	14.1	25.5	45.9	89.6	228.2	262.3
Provincial Govts. . .	31.8	24.0	22.3	22.2	19.2	21.6	17.8
Total	40.5	38.1	47.8	68.1	108.8	249.8	280.1
OTHER DEPOSITS							
Demand } In Canada .	345.6	339.5	389.2	448.2	561.0	566.8	657.4
Notice }	646.1	676.9	738.2	888.8	921.0	1,037.9	1,197.7
Outside Canada . . .	991.7	1,016.4	1,127.4	1,337.0	1,482.0	1,604.7	1,855.1
	114.5	97.7	120.7	170.3	196.2	210.1	318.3
Total General Public	1,106.2	1,114.1	1,248.1	1,507.3	1,678.2	1,814.8	2,173.4
DUE TO BANKS							
Canadian	5.7	9.6	10.4	6.9	10.1	11.4	9.7
United Kingdom . .	11.6	10.7	4.9	2.3	4.6	4.5	8.0
Elsewhere	10.7	12.0	17.1	24.5	30.5	29.2	38.8
Total	28.0	32.3	32.4	33.7	45.2	45.1	56.5
Bills Payable	15.2	8.6	6.7	7.9	2.1	1.9	7.5
Acceptances	8.4	8.9	9.2	10.9	20.6	28.9	42.9
Other Liabilities . . .	3.9	2.2	3.8	2.7	6.4	2.9	2.9
Total due Public .	1,286.1	1,290.2	1,450.0	1,761.4	2,026.4	2,328.4	2,751.7
Grand Total Liabilities	1,533.4	1,534.4	1,693.0	2,008.4	2,276.0	2,582.5	3,023.4

bank's own organization. Thus the officials are steeped with the bank's policies and traditions. They look upon their duties as professional and conduct the affairs of the bank upon lines found to be wise and safe over a long series of years.

The general manager, who is at the head of the organization, exercises almost autocratic powers. It is his duty to define the policy of the bank toward customers and to direct the activities of the working forces. While he reports to the president and the directors, it is probably usual that in defining the policy of the bank they are guided by his judgment and ordinarily would hesitate to urge any course of action of which he would not approve.

Next in authority to the general manager is the assistant general manager. These two officials are the chief executive officers of the bank. The large banks divide the country into districts. Over each district there is a superintendent who exercises over the branches in that district an important supervisory power. Then there are traveling inspectors whose duty it is to carefully check up the business of the branches, especially in regard to credits granted to clients. Their duties are quite independent of those of the auditors who regularly examine the accounts.

Over each branch there is a local manager, or, in the case of the larger branches, a group of two or three managers. In New York and other cities of the United States where branches in the fullest sense of the word are not permitted, the managers are known as agents and the branches as agencies.

The duties of the manager and his official and clerical staff and the methods by which the business of the branches are to be conducted are carefully outlined in printed instructions assembled in book form. The officials and clerks are

expected to keep themselves well informed in regard to these instructions, which are in considerable detail.

The local managers are expected to become one with the people of the districts served by their branches. They are encouraged to take part in local activities of a public nature, except party political controversies in which they must not participate. In the farming districts they are told to drive out among the farmers, become well acquainted with them and become thoroughly informed regarding their activities.

In addition to daily, weekly and monthly reports in regard to the business of the branch, the manager each month must send to the head office a carefully prepared report in regard to local business conditions, the state of the crops, and the status of other industrial activities domiciled in his district.

The local manager has considerable latitude as to loans. He can appeal to the district superintendent for advice and instructions and in turn the district superintendent can draw upon the authority and wisdom of the head office. Thus the client of the little branch in a remote section of the country may have at his disposal the ripe experience of the older bankers at district headquarters or at the home office. The Canadian system of branch banking is thus peculiarly adapted to the needs of a young and developing country. Branches can be established in many places where a bank ordinarily would not be profitable, or would be so small as not to be of value in upholding the business of the neighborhood.

Audits—No Government Inspection

The Canadian banking law makes no provision for inspection of the banks by government bank examiners. However, the law requires that the affairs of each chartered bank

shall be examined by qualified auditors to be selected by the shareholders from a list published in *The Canada Gazette* and approved by the minister of finance. If the shareholders do not exercise this right, an auditor may be appointed by the minister of finance on the application of any shareholder. The auditors' report must be attached to the statement submitted by the directors to the shareholders and must be read in the annual general meeting. A copy of the annual statement must also be filed with the minister of finance with whom also a monthly return must be filed and regularly published. The minister may also call for special returns from any bank whenever, in his judgment, they are necessary to afford a full and complete knowledge of its condition.

Through the medium of the Canadian Bankers Association, incorporated by special act of the dominion parliament, the banks have procured legal powers of supervision for the making of circulating notes and the delivery thereof to the banks, and the disposition made by the banks of such notes and penalties for the non-observance of the regulations applicable thereto. Thus the association has the legal right to inspect each bank so far as its note circulation is concerned but in no other particular, and the approved by-laws make provision for the regular exercise of the right.

Canada has not been entirely free from bank failures, but its system as now developed would appear to afford a maximum of credit facilities per unit of capital employed with a minimum of risk to the banks and their clients.

Savings Banks and Funds

There are only two incorporated savings banks in the dominion. These are La Caisse d'Economie de Notre Dame de Quebec, head office Quebec, established in 1848 and The

Montreal City & District Savings Bank, head office Montreal, established in 1846. These old established banks now function under the terms of The Quebec Savings Banks Act of 1913. This act regulates carefully the manner in which their business shall be conducted and defines the investments in which their deposits may be placed. Provision is made for official audits and for monthly returns in a specific form to be published in *The Canada Gazette*, the official organ of the dominion government. Following, in somewhat condensed form, is a copy of a recent statement:

STATEMENT
INCORPORATED SAVINGS BANKS

May 31, 1920

LIABILITIES
(00,000 omitted)

	Capital Stock	Capital Paid Up	Surplus	Do- minion Govern- ment Deposits Payable on Demand	Other Deposits Payable after Notice or on a Fixed Day	Lia- bilities not Included under Fore- going Heads	Total Lia- bilities
City and District Sav- ings Bank, Montreal	2,0	1,5	1,7	0,5	42,7	0,4	46,8
Caisse d'Economie de Notre Dame de Que- bec.	1,0	1,0	0,9	0,2	10,6	0,8	13,5
Total	3,0	2,5	2,6	0,7	53,3	1,2	60,3

The difference between paid-up capital and authorized capital is subject to call.

ASSETS

	Cash in Hand and on Deposit in Chartered Banks	Dominion Provincial and Other Public Securities	Canadian Municipal Bonds or Securities	Bonds Loans and Bank Premises	Loans Held as Collateral Security	Total Assets
City and District Savings Bank, Montreal.	7,3	11,0	15,6	2,9	10,0	46,8
Caisse d'Economie de Notre Dame de Quebec	1,6	1,7	4,1	2,6	3,5	13,5
Total	8,9	12,7	19,7	5,5	13,5	60,3

The chartered banks have savings departments, on the deposits in which interest is allowed, but they are not required to make any special use of these particular funds. Such deposits are not separately reported, but no doubt they form an important part, but by no means the larger part, of the "deposits by the public payable after notice or on a fixed day" which on June 30, 1920, totaled \$1,243 million.

The dominion government maintains a double system of savings banks, or, expressed perhaps more correctly, savings depositories. One set, styled "post office savings banks," is managed by the post office department, every post office receiving deposits. The other set, styled "government savings banks," is managed by the finance department. The post office department also sells annuities and old age pensions. The money received through these savings banks is regarded as a loan from the people to the government. The government is required to carry a gold reserve of 10 per cent. against the savings deposits, but no assets are set aside for their security.

Most of the deposits in the government banks come from the poorest and most ignorant classes, people who in all countries are suspicious of banks. Some of the Canadian cities maintain municipal savings banks, but they are of relatively small importance.

Large sums are kept on deposit with the loan and mortgage companies, which are in the nature of savings deposits.

Following is a comparative statement for the past six years of the several classes of definitely segregated savings deposits:

SAVINGS DEPOSITS (00,000 omitted)

March 31	1914	1915	1916	1917	1918	1919	1920
*Incorporated Banks	37,4	39,1	42,4	53,5	43,3	50,3	53,3
Dominion Government Savings Banks	15,5	14,0	12,3	15,7	15,5	16,8	10,5
Post Office Savings Banks	41,6	40,0	40,0	42,6	41,3	41,6	32,8
Total	94,5	93,1	94,7	111,8	100,1	108,7	96,6

* These figures, in part, are for December 31.

Trust Companies

In 1872 the Dominion of Canada and also the Province of Ontario granted trust company charters, but the first trust company formed in Canada was The Toronto General Trusts Corporation, formed in 1882. The three other largest companies date their business from 1899, so that the trust company idea in Canada may be said to be of comparatively recent date.

A large number of companies have been organized in Canada—principally, if not wholly under provincial laws—for some specific purpose without any intention of transacting general trust company business, but whose charters have been taken out under the corporate name of trust company. In British Columbia alone there were at one time approximately 160 companies operating under the name of trust company, 95 per cent. of which were formed for specific purposes and made no attempt to transact regular trust company business. In order to control the use of the words "trust company" in a corporate name and in order to have some supervision over the business of trust companies, sev-

eral of the provinces have passed acts defining under what circumstances a company may operate under the name of trust company. In 1914 the dominion parliament passed "The Trust Companies Act," revising the laws relating to trust companies incorporated by or under authority of acts of the parliament of Canada. The provisions of this act were very complete and strictly limited the use of the word "trust" in the corporate name of the companies taking out new charters, but companies which had previously taken out dominion charters were still permitted to operate under the name of "trust companies" and the dominion act did not affect trust companies with provincial charters.

There are in Canada, however, in the neighborhood of twenty-five companies that are doing business similar in general character to the trust company business as known in the United States—that is to say, which act as executor under wills, as agents for executors, as administrators, as trustees to execute trusts for marriage settlements and the like. They also act as agents for their clients to invest moneys, collect dividends, coupons and other income; to manage real estate, collect rents and attend to repairs; to act as agents to buy or sell real estate; also as trustees for corporations, for registering and countersigning certificates of incorporation and as trustees for the bond issues of corporations.

Very few of these companies and none of the larger ones operate under the Dominion Trust Companies Act. The laws dealing with the devolution of estates and successions are passed by the legislatures of the various provinces and it is necessary for trust companies dealing with such matters in these various provinces to comply with the respective laws thereof in all matters, including that of the eligibility of the trust company itself.

TRUST COMPANIES' STATISTICS

Arranged according to relative magnitude

In dollars (ooo omitted)

Year Ended December 31, 1919	Capital Account	Guar- anteed Accounts	Estates Trusts	Total
Royal Trust Co.	5,739	2,467	226,033	234,239
Toronto General Trusts Co. .	3,883	9,477	87,763	101,123
National Trust Co.	3,301	5,975	79,665	88,941
Montreal Trust Co.	2,252	1,530	56,343	60,125
Eastern Trust Co.	1,456	161	21,654	23,271
Trusts & Guarantee Co. . .	2,722	5,363	14,047	22,132
Standard Trust Co.	1,627	2,524	12,045	16,196
Northern Trusts Co.	2,161	1,370	11,072	14,603
Union Trust Co.	1,596	5,279	6,719	13,594
Canada Trust Co.	1,686	4,860	4,234	10,780
Bankers Trust Co.	312	517	10,933	11,762
London & Western Trust Co.	725	....	10,387	11,112
Western Trust Co.	1,317	993	7,590	9,900
Sterling Trusts.	515	587	7,070	8,172
British Empire Trust Co. . .	4,590	....	2,515	7,105
Mercantile Trust Co.	829	451	5,635	6,915
Prudential Trust Co.	994	1,574	2,277	4,845
Imperial Trust	273	1,365	3,080	4,718
Crown Trust Co.	777	....	3,878	4,655
Canada Guaranty Trust Co.	439	286	1,913	2,638
Capital Trust Co.	545	605	1,136	2,286
Nova Scotia Trust Co.	283	....	1,010	1,293
Brantford Trust Co.	330	....	637	967
Premier Trust Co.	139	33	345	517
Winnipeg Mercantile Trust Co.	81	4	154	239

Although in some cases authorized to take deposits, the trust companies do not as a rule receive money on deposit

subject to withdrawal by check, confining themselves more or less strictly to the trusteeships in their various forms. The fact that trust companies do not as a rule seek deposits is probably largely accounted for by the fact that a number of the larger banks have trust companies associated with them. For instance, The Royal Trust Company with assets under its administration according to its last report of \$234 million is closely affiliated with the Bank of Montreal, while the Montreal Trust Company is similarly affiliated with the Royal Bank of Canada, and the Bankers Trust Company of Montreal maintains similar relations with the Merchants Bank of Canada. The larger Canadian trust companies have branches in the chief cities of the dominion.

Mortgage and Loan Companies

A very real factor in the upbuilding of Canada has been the funds which through the agency of mortgage and loan companies have been made available for mortgage loan purposes. Farmers throughout Canada desiring to take up land have been able to borrow money at reasonable rates for securing such loans and those desirous of establishing homes in town and city were also accommodated through the same offices. It is said that in the early days funds which were available for the uses of these companies were largely limited to the amount which could be covered by the savings of the people in Canada. Later on a market for such loans was developed in Great Britain, particularly in Scotland. The first mortgages secured upon farm property came to be looked upon with great favor in that country and Canada was thus assured of a constant and increasing source of supply of capital for farming and real estate development.

At the end of 1910 fifteen of the larger loan companies reporting to the Ontario government had outstanding on mortgage loans in Canada just under \$72 million, of which approximately \$30 million represented money brought from Scotland. At the end of 1914 the amount loaned by these same companies had reached the sum of \$91 million, of which no less than \$37 million, or 46 per cent., of all mortgage loans held by these companies was money obtained in Great Britain. At the end of 1919, one year after the close of the war, mortgage loans of these particular companies stood at about \$71 million, while the amount due British investors had decreased to just under \$29 million. This large reduction in the supply of loan funds from British investors was attributed, first, to the embargo placed by the British government during the war upon the export of money which prevented loan companies from increasing the amount of their sterling debentures; second, to the heavy increase in interest rates, which discouraged new borrowing; and third, to the serious decline in the exchange rate, with the resultant heavy loss in bringing money from Great Britain to Canada. The lending companies at the present time (1920) are experiencing difficulty also in selling their debentures at home in competition with high grade municipal and government securities which yield a return of six to seven per cent.

On December 31, 1919, according to a statement published in *The Financial Post* of Toronto the chief loan and mortgage companies owed on account of savings deposits \$28,136,000. They had outstanding \$114,502,000 in debentures. Their total liabilities to the public amounted to \$147,702,000. The capital and reserves and other liabilities to shareholders amounted to \$116,285,000. The total assets were \$262,974,-

ooo, which were invested chiefly as follows: \$167,845,000 in mortgages, \$18,461,000 in other loans, \$39,140,000 in securities, \$8,540,000 in real estate and premises, while cash on hand amounted to \$15,370,000.

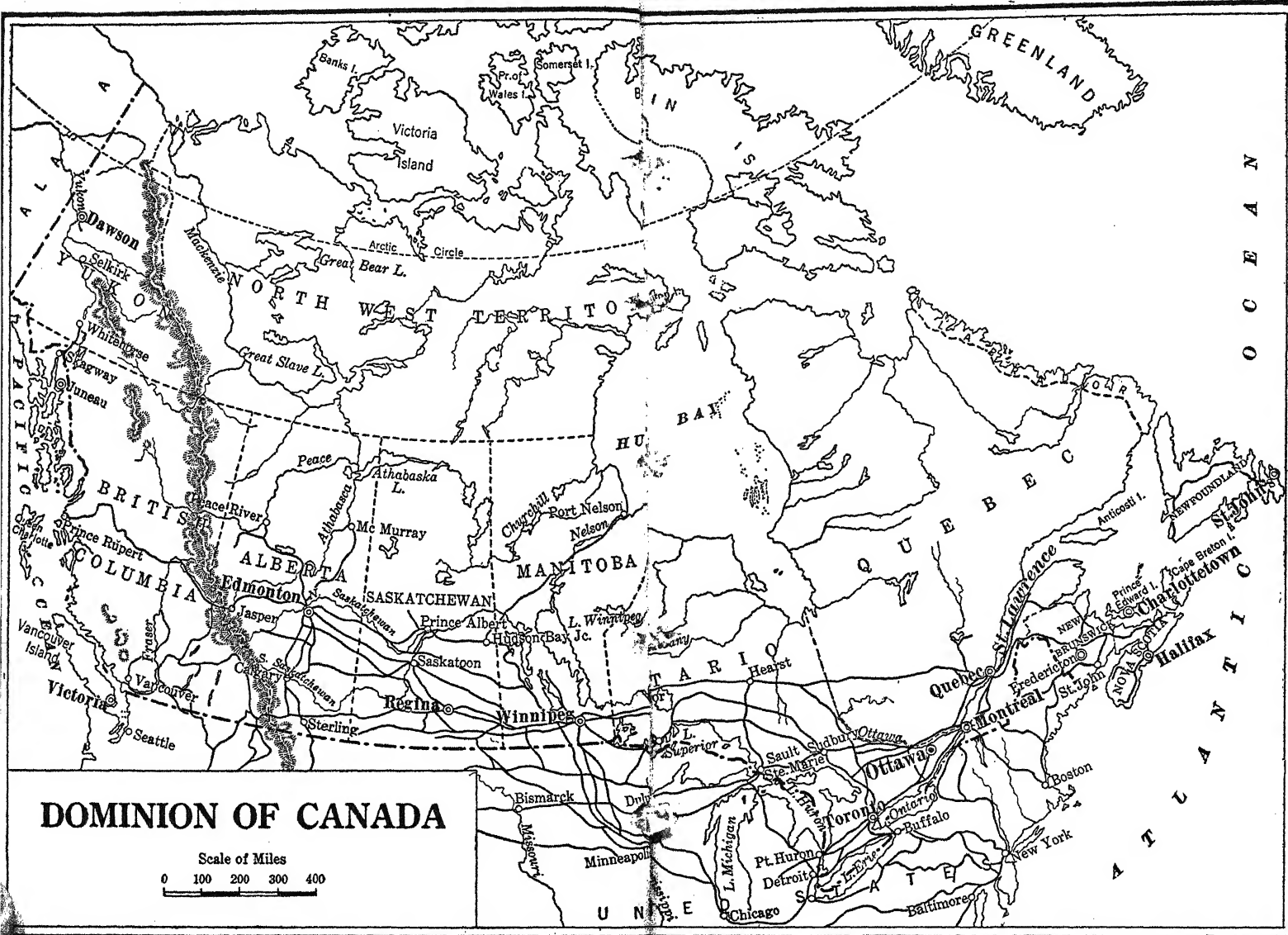
Rural Credit Societies

In 1916 the United States Congress passed the Federal Farm Loan Act. In the following year the legislative assemblies of Ontario, Manitoba, Saskatchewan, Alberta and British Columbia passed measures empowering the provincial governments to provide money for loans to farmers. Previous to this time somewhat similar legislation had been had in Nova Scotia and Quebec. This legislation in Canada and the United States for the benefit of dwellers in rural communities seems to have had a common origin. The agitation began in the United States some nine years ago and became a national issue in 1912. In 1913 two commissions from the United States visited various countries in Europe and studied the conditions of rural credit prevailing there. One of these commissions was composed not only of delegates from different states, but as well of representatives of various associations and there were also seven delegates representing the four Canadian provinces of Nova Scotia, Ontario, Saskatchewan and Alberta. This commission made an investigation of coöperative agricultural finance, production and distribution of rural credits in various European countries. The legislation above referred to was the outcome of the studies originated by these commissions.

It is not our purpose to discuss in a detailed way the legislation which has been had in Canada. Suffice it to say that in the seven provinces first mentioned above various

schemes of rural credit are now in operation. Their activities are not in any case on a large scale and it appears to be too soon to determine whether such aid for agriculture is likely to be as satisfactory a method of obtaining rural credit as that provided by the land and mortgage companies whose operations have already been described and the facilities afforded to farmers by the chartered banks.





CHAPTER VII

Area and Population

CANADA, the greatest of the self-governing dominions of Great Britain, has a land area of 3,603,910 square miles, one-fourteenth of the land surface of the earth. This is about thirty times the area of the British Isles and exceeds the area not only of continental United States—2,973,890 square miles—but also that of our entire possessions including Alaska, Hawaii, Porto Rico and the Virgin Islands, an aggregate of 3,575,530 square miles.

The People

The population of Canada was officially estimated in 1919 to be 8,835,000, about the population of the United States one hundred years ago. The population of Canada per square mile, omitting from the calculation the 1,207,926 square miles of the as yet undeveloped and but little explored Northwest Territories, is only 3.80 persons, just about one-tenth of the population per square mile of continental United States.

The Provinces

The oldest portion of Canada is the province of Quebec. Originally settled by the French, it is still very largely inhabited by people of French descent who use the French language in their daily intercourse. This feature is so marked that the official publications of the dominion government are required to be printed both in French and in English. At the time of the last census the percentage of Canadian born population, both French and English, was 64.49, British born

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17.82 and foreign born 17.69. The foreign population is largely in the prairie provinces and to a considerable extent is composed of immigrants from the United States who have been attracted to these provinces on account of their cheap and productive lands. The increase in population in recent years has been very largely due to immigration into these provinces.

The table which follows gives the area of each province, the population in 1911 when the last federal census was taken, and the latest estimates.

AREA AND POPULATION

Province	Area Sq. Miles	1911 Population	1919 Population	1919 Population Per Sq. Mile
Alberta	252,925	374,663	587,700	2.28
British Columbia . . .	353,416	392,480	718,660	2.03
Manitoba	231,926	455,614	618,903	2.66
New Brunswick	27,911	351,889	368,760	13.17
Nova Scotia	21,068	492,338	518,761	24.71
Ontario	365,880	2,523,274	2,820,909	7.70
Prince Edward Island .	2,184	93,728	93,728	42.45
Quebec	690,865	2,003,232	2,326,528	9.57
Saskatchewan	243,382	492,432	754,090	3.10
The Provinces . . .	2,189,557	7,179,650	8,808,109	4.02
Yukon	206,427	8,512	8,512	.04
Northwest Territory .	1,207,926	18,481	18,481	.02
The Dominion . . .	3,603,900	7,206,643	8,835,102	2.42

In considering the following statement of the economic development of Canada, the virility, resourcefulness and political capacity of the empire-building material of which this somewhat sparse population is composed will be forcefully impressed upon the reader.

CHAPTER VIII

Natural Resources Developed and in Reserve

CANADA'S chief natural resources are in the divisions of agriculture, forests, mining, and in her fisheries. It is estimated that, excluding the Northwest Territories and the Yukon, there are 302,200,000 acres of land in Canada suitable for agriculture, and probably a very much greater acreage which could be used for pasturage.

Agriculture

The "money crop" par excellence to which Canadian lands are suited is wheat. Oats, hay, potatoes and barley are also important crops. It has been demonstrated that sugar beets can be grown advantageously, while the hardy fruits, such as apples and certain varieties of grapes, also the small fruits, such as strawberries, currants and gooseberries, can be raised commercially.

For a long time to come, however, wheat and oats will be the great commercial crops, although potatoes and barley are being raised in progressively increasing amounts. Canada stands fifth in the list of wheat-producing countries. The average annual production of wheat in 1910-1914 was 196 million bushels. In 1915 the production reached the great total of 393,542,000 bushels. The average annual production of oats, 1910-1914, was 343 million bushels.

The quantities of each of the principal field products harvested in each of the crop years 1915 to 1919, inclusive, are given in the next table. The marked falling off in the production of cereals may no doubt be attributed in part to the fact that so many men were withdrawn from work on the farms for service in the army. At the foot of the table is given the value of the crops as officially estimated. It will be seen that the farmers realized much more in dollars from the smaller crops of the later years than from the larger crops of the earlier years. However, the dollar realized had a much smaller purchasing power. This fact is developed and some of the reasons therefor suggested in the chapter on the Credit Structure. The table follows.

FIELD PRODUCTS
In Millions

Calendar Year	1915	1916	1917	1918	1919
Wheat (bus)	393	262	233	189	196
Oats (bus)	464	410	403	426	411
Barley (bus)	54	42	55	77	58
Rye (bus)	2	2	3	8	11
Flax (bus)	6	8	5	6	6
Total	921	726	701	707	683
Hay and Clover (tons)	10	14	13	14	16
Potatoes (bushels) . . .	60	63	79	104	131
Turnips (bushels) . . .	60	36	63	122	105
Cattle (head)	6	6	7	10	10
Values	\$825	\$886	\$1,144	\$1,367	\$1,452

Following is a comparative statement for the period of the war of the production and exports of wheat.

WHEAT CROP, 1915-1919, INCLUSIVE
(000,000 omitted)

⊕Crop Year	Area	Yield per Acre	Total Yield	*Average Price per Bushel	Total Value	† Year	EXPORTS	
							Bushels	Value
	Acres	bu.	bu.	\$	\$			\$
1915	15	26.05	394	.91	357	'16	158	173
1916	15	17.10	263	1.31	344	'17	190	244
1917	15	15.75	234	1.94	453	'18	150	366
1918	17	11.00	189	2.02	382	'19	42	97
1919	19	10.25	193	1.89	365	'20	78	185

⊕ Ending August 31. † Fiscal year ending March 31. * At point of production.

Dairy Products

Statistics recently compiled by the Dominion Bureau of Statistics for the year 1918 in regard to the production of dairy products show that in that year there were 3373 dairy factories including 990 creameries, 1885 cheese factories, 476 combined butter and cheese factories and 22 condensed milk factories. The total number of patrons contributing milk and cream was 252,416 and the total amount of money paid to the patrons of these factories was \$83,637,000. The province of Ontario contributed over \$41 million of this amount and the province of Quebec about \$27 million. The output in butter was 93,298,000 pounds valued at \$41,859,000, and in cheese 174,878,000 pounds valued at \$39,456,000. The capital invested was just over \$23 million. There were over 10,000 persons employed by these factories.

Minerals

The mineral deposits of Canada are varied in character and especially varied in distribution. Comparatively little is known about conditions in the great and almost wholly unex-

plored Northwest Territories. There appears to be no question, however, that in addition to gold, copper, nickel and cobalt, which will probably be found in commercial quantities—and perhaps, of more importance than any of these—there is here one of the largest areas of oil-bearing country yet unexplored.

Passing from these possibilities to known developments we find that gold, silver, copper, lead, zinc and gypsum are produced in commercial quantities, while, with the exception of a deposit in New Caledonia, Canada has a virtual monopoly in the production of nickel, the known deposits of which, by the way, are chiefly owned by an American company. Canada also produces between 80 and 85 per cent. of the world's entire output of asbestos.

The quantity output of the principal mineral products is tabulated below. The last line gives the values of the total mineral product as estimated by the Canadian Department of Mines.

QUANTITIES PRINCIPAL MINERAL PRODUCTS AND
VALUE TOTAL MINERAL PRODUCTS

(000 omitted)

Calendar Years	1914	1915	1916	1917	1918	1919
Asbestos, tons (2000 lbs) . . .	117	136	154	153	158	155
Cement, bbls . . .	7,172	5,681	5,369	4,768	3,591	4,991
Coal, tons (2000 lbs.) . . .	13,637	13,267	14,483	14,046	14,979	13,586
Copper, lbs . . .	75,735	100,785	117,150	109,227	118,415	75,124
Gold, ozs.	773	918	930	739	710	767
Lead, lbs.	36,337	46,316	41,497	32,576	43,846	43,895
Nickel, lbs.	45,517	68,308	82,958	84,330	92,076	44,542
Silver, ozs.	28,449	26,625	25,459	22,221	21,284	15,675
Total Value \$	128,863	137,920	177,201	189,646	210,204	173,075

Coal

It is estimated that in the dominion there are 111,169 square miles of lands underlaid by coal, representing 14 per cent. of the coal reserves of the world and 50 per cent. of those of the British empire. The coal fields of Canada may conveniently be divided into the bituminous coal fields of Nova Scotia and New Brunswick, the lignites of Manitoba and Saskatchewan, the sub-bituminous and anthracite fields of Alberta and the eastern Rocky Mountain region, the semi-anthracite and bituminous fields of Vancouver Island and Queen Charlotte Island and the interior of British Columbia, the lignites of the Yukon and the bituminous and lignite fields of the Arctic and of the MacKenzie basin.

The coal areas and estimated quantities for the different provinces are shown in the following table based upon figures issued in 1917 by the Division of Mineral Resources and Statistics of Canada. There should, of course, for practical consideration, be a substantial reduction made in these quantities, due to waste in mining operations.

This unmined tonnage, aggregating 1,357,757 million tons, compares with an estimated reserve of unmined coal in the United States of about 16,000 million tons of anthracite and 3,538,000 million tons of semi-anthracite and bituminous, sub-bituminous and lignite.

The Canadian coal deposits are located in the extreme eastern and western provinces. The great Province of Ontario in which live more than one-third of the entire population of the dominion is without coal deposits; also Quebec where dwell another 25 per cent. of the population. It is there-

ESTIMATED COAL RESOURCES OF CANADA

Province	Area of Coal Lands Square Miles	Semi- Anthracite Tons	Bituminous Tons	Sub- Bituminous Tons	Lignite Tons
Nova Scotia . .	521	.....	10,691,000,000	.....	.....
New Brunswick .	121	.....	166,000,000	.....	.....
Ontario	10	.....	.....	.....	27,500,000
Manitoba . . .	48	.....	.....	.....	176,000,000
Saskatchewan .	13,406	.....	.....	.....	65,793,000,000
Alberta	81,878	845,900,000	217,918,000,000	932,053,000,000	29,095,000,000
British Columbia	6,045	.....	277,923,000,000	.....	65,715,500,000
Yukon	2,840	.....	275,000,000	.....	65,159,000,000
Northwest Terri- tories	300	.....	.....	.....	5,280,000,000
Arctic Islands .	6,000	.....	6,600,000,000	.....	.....
Total	111,169	845,900,000	313,573,000,000	932,053,000,000	111,286,000,000

a Includes some anthracite coal.

b Includes some sub-bituminous coal.

fore necessary for Ontario to obtain practically all of her coal and Quebec most of her coal from the United States. One-third of the coal imported into Canada is used by the railroads. It will be many years before the coal deposits in the western provinces are sufficiently developed to change this situation and a marked reduction in transportation cost would also become necessary to interfere with the advantage which the United States has in supplying fuel to this important portion of the dominion.

The following table gives in comparative form for a period of years the amount of coal produced, the consumption, the imports and the exports:

COAL PRODUCTION AND CONSUMPTION
(00,000 omitted)
Short Tons

Calendar Year	Pro-duction	Con-sumption	Imports		Exports	Net Imports
			Tons	% Con-sumption		
1913	15,0	31,5	18,1	57.4	1,6	16,5
1914	13,6	26,8	14,6	54.5	1,4	13,2
1915	13,2	23,9	12,4	51.9	1,8	10,6
1916	14,4	29,8	17,5	58.7	2,1	15,4
1917	14,0	33,1	20,8	62.8	1,7	19,1
1918	14,9	34,7	21,6	62.2	1,8	19,8
1919	13,5	28,6	17,3	61.1	2,0	15,3

The major part of the coal imported was obtained from the United States and the coal exported went chiefly to the United States. The tonnage and value of the coal exported from the United States to Canada and the relation of these exports to the total merchandise exports from the United States to Canada can be determined by referring to the next table:

EXPORTS FROM UNITED STATES TO CANADA
(00,000 omitted)

Year Ended June 30	Total Mer- chan- dise Exports to Canada	Coal Exports to Canada							% Total Merch. Exports
		Anthracite		Bituminous		Total			
		Tons	Value	Tons	Value	Tons	Value		
	\$		\$		\$		\$		
1913	415,4	4,5	24,1	11,9	29,1	16,4	53,2	12.80	
1914	344,7	3,8	20,5	11,4	26,6	15,2	47,1	13.66	
1915	300,6	3,6	19,1	8,4	18,3	12,0	37,4	12.44	
1916	468,7	3,7	19,7	10,4	21,0	14,1	40,7	8.68	
1917	787,1	4,5	25,2	12,9	32,8	17,4	58,0	7.36	
1918	778,4	4,4	28,8	16,2	57,1	20,6	85,9	11.03	
1919	813,7	4,5	26,2	16,6	44,4	21,1	70,6	8.67	

Forest Products

The forests of Canada are one of the dominion's greatest assets. On the whole, they have been more wisely exploited than has been the case in the United States. The total area covered by standing timber is estimated to be between 500 million and 600 million acres. Of this acreage, it is estimated that about one-half is covered with timber suitable for sawing into lumber. A large part of the remaining acreage is covered with trees suitable for manufacture into paper pulp; also for local use such as mine props, fencing and firewood. The principal varieties of trees are spruce, Douglas fir, white pine, cedar; also hardwoods, such as oak, ash, hickory, and the several varieties of the maple.

Canada's supply of merchantable timber is estimated to be about one-fourth of the supply available from the United States. In regard to relative timber resources, Russia is said to stand first, United States second, and Canada third.

The total capital invested in lumbering at the close of the fiscal year 1918, is officially estimated to have been about \$180 million, of which logging and timber plants contributed \$36,500,000, mill equipment \$53,791,000; the remaining investment represented working capital in the form of bills and accounts receivable and cash. There were 3,086 operating plants employing about 60,000 people, of whom 26,736 were employed in the woods and 30,000 in the mills. The total amount paid in wages was \$44,490,000. The aggregate value of production for the year was \$144,908,000 divided as follows: Sawed lumber, \$102,335,000; shingles, \$8,124,000; lath, \$1,560,000; pulpwood, \$18,416,000; miscellaneous products, including cooperage stocks, poles, crossties, posts,

veneer, etc., accounted for the remainder. By provinces the quantity and value of the output of sawed lumber in 1918 was as given below:

LUMBER OUTPUT IN 1918

Province	Quantity *m.ft.b.m.	Value \$
Alberta	22,388	473,694
British Columbia . .	1,141,197	27,992,976
Manitoba	54,047	1,240,052
New Brunswick . . .	439,625	12,189,312
Nova Scotia	166,332	4,089,039
Ontario	1,182,328	33,165,137
Prince Edward Island	6,393	136,336
Quebec	841,084	20,916,604
Saskatchewan	75,835	2,122,307
Yukon	229	10,315
Dominion	3,929,458	102,335,772

* 1000 feet board measure.

Fisheries

Canada possesses perhaps the most extensive fishing waters in the world and they are said to contain the principal food fishes in greater abundance than the waters anywhere else. The coast line of the Atlantic provinces covers about 5000 miles, while the sea areas to which this forms the natural basin embrace the Bay of Fundy, 8000 square miles in extent, the Gulf of St. Lawrence, fully ten times that size, and other ocean waters aggregating not less than 200,000 square miles or over four-fifths of the fishing grounds of the North Atlantic. Then there are the vast area of Hudson Bay, of the great number of lakes and rivers which together are estimated to cover 220,000 square miles, or more than half the fresh water of the globe, and finally the Pacific coast, over 7,000 miles long.

The commercial food fishes are principally cod, haddock, halibut on the Atlantic coast and salmon on the Pacific coast, although there is a very extensive halibut fishery also in British Columbia. The most extensive lobster fishing in the world is carried on along the whole of the eastern shore of Canada, while oyster beds exist in many parts of the Gulf of St. Lawrence, notably off Prince Edward Island. The total value of all fish and fish products marketed in 1918 was \$60,250,000 compared with \$52,312,000 in 1917. The amount of capital invested in the fisheries of Canada in 1917 was \$60,221,000 compared with \$47,143,000 in 1907.

The Fur Trade

Finally, in the list of Canada's natural products we have the fur trade which has been an important part of Canada's industry since the earliest years of the French regime when it was a monopoly of the proprietary companies. Until recently the operations of the trade were in the main confined to the trapping of the fur-bearing animals and exportation of the furs in an undressed state to London or the United States either for sale at public auctions or consigned to dealers in those places. The war has brought about an important change in this respect. A much larger percentage of the furs is now dressed and manufactured in Canada. The exports of dressed and undressed furs from Canada to England and the United States for the years 1914, 1918 and 1919 are shown in the following tables:

EXPORTS OF UNDRESSED FURS

To	1914	1918	1919
England	\$3,000,000	\$1,600,000	\$3,700,000
United States . .	2,100,000	6,300,000	9,600,000

ALL FURS

All exports . . .	\$5,500,000	\$8,000,000	\$13,500,000
Imports	2,200,000	2,900,000	3,300,000

In 1914 England received the greater part of the Canadian fur exports. By 1918, 78 per cent. of the exports were going to the United States and only 20 per cent. to England. In 1919 the percentages were, respectively, 71 per cent. to the United States and 27 per cent. to England. Canada's fur resources are very great. Labrador, the maritime provinces, Quebec, northern Ontario, the Northwest Territory and British Columbia all contribute to the annual production. A very important fact to note in connection with the fur trade is that Canada is no longer depending for its supply of skins upon the trapping of wild animals. Canadian fur farmers now breed silver, black, red and blue fox, Persian lamb, raccoon, mink, marten and skunk.

Prior to the war the principal market for furs was in London. In 1915 the first American fur auction was held at St. Louis; in 1917 auctions were commenced in New York. Auction sales are also now held in Montreal and it is expected that they will take place three times a year, in the Winter, Spring and Fall. It is believed that these auctions will attract the most important of the world's fur buyers and insure a higher level of prices, bringing to Montreal furs for sale from all parts of the world and establishing Montreal as an international center for the trade.

Water Powers

In summing up the natural resources of Canada we must not lose sight of her vast water powers, developed and in reserve.

The per capita water power developed in Canada is said to be larger than in any other country except Norway. The potential and developed water powers of the United States are greater than for any other country in the world. Canada

ranks next. The United States has utilized about 25 per cent. of her available water powers while Canada in the populated sections has utilized about 21 per cent. Taking into account, however, the less populated portions of the country, but excluding the Yukon and the Northwest Territories, improbable of immediate development, less than nine per cent. of the potential water power is utilized.

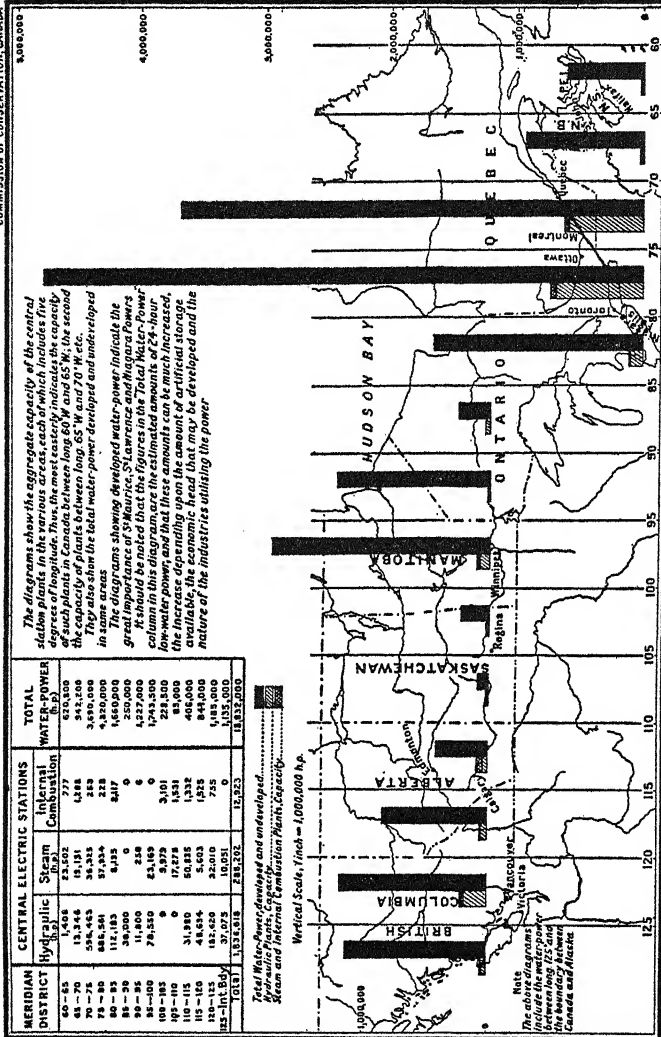
The following is a comparative table of available and developed water power in the principal countries of the world.

WATER POWER OF THE WORLD
POTENTIAL AND DEVELOPED
Annual Basis
(000 omitted)

Country	H. P. Avail- able	H. P. Devel- oped	H. P. Avail- able Per Sq. Mile	H. P. Devel- oped Per Sq. Mile	H. P. Per Capita	
					Avail- able	Devel- oped
†Austria-Hungary	6,500	566	26.81	2.35	.13	.01
Canada	19,500	2,305	9.75	1.15	2.21	.26
France	8,000	1,200	38.64	5.79	.20	.03
Great Britain . .	900	210	7.37	1.72	.02	.005
†Germany	1,425	618	6.81	2.95	.02	.01
Italy	7,000	1,500	63.06	13.51	.19	.04
Norway	5,500	1,300	44.00	10.40	2.29	.54
Spain	5,000	438	26.31	2.30	.25	.02
Sweden	6,700	1,105	38.72	6.38	1.17	.19
Switzerland . . .	2,000	511	125.00	31.93	.51	.13
United States . .	30,000	7,000	9.91	2.31	.28	.07

†As formerly constituted.

That Canada is one of the great water power countries of the world is due largely to the nature and extent of water and the abundance and seasonable distribution of rainfall, the fortunate location of waterfalls and the fact that her



water powers have been thoroughly investigated and are intelligently administered.

In general, Canadian water powers are applied to three uses: (a) municipal purposes, (b) for manufacture of pulp and paper, and (c) for electro-chemical and similar processes. Of the developed water power about 78 per cent. is used for municipal purposes, about 14 per cent. for the pulp and paper business and about eight per cent. for electro-chemical or similar processes.

The products of the electro-chemical industry are extremely diversified. They include aluminum, silicon, calcium-carbide, cyanamid, ferro-alloys, graphite, carborundum, chlorine, and other products many of which are indispensable in arts and manufactures. Without aluminum the modern high-speed aeroplane could not exist and without the electro-chemical abrasives and ferro-alloys manufacturing processes would be lengthened many fold. One of the most important electro-chemical processes is the fixation of nitrogen. About 30,000 h.p. is used for this purpose at Niagara by the American Cyanamid Company.

There are 2,000,000 h.p. of electrical energy generated in Canada at the present time, 90 per cent. of which is produced by hydro-electric generating plants. It may be noted that some of the principal water powers of Canada are located in the very provinces of Quebec and Ontario in which there are no coal deposits. In 1919 Quebec had 119 power plants with a capacity of 625,000 h.p., of which 92 with a capacity of 585,000 h.p. were hydro-electric. Ontario had 173 plants with a capacity of 899,000 h.p., of which 113 hydro-electric plants had a h.p. of 831,000.

Of the developed hydro-electric plants, that of the Niagara system which is under public ownership is the largest. It

has a load of 201,000 h.p., supplies 120 municipal distributing systems and serves an area 182 miles long and 85 miles wide. The total Canadian electric development at Niagara is 488,000 h.p., comprising three large power plants, including the public plant above mentioned. The privately owned Shawinigan system in Quebec with a load of 205,000 h.p. supplies 76 systems and serves a triangular area with a base of 140 miles and a height of 75 miles.

We are indebted to the Commission of Conservation of Canada for the interesting chart printed on page 80, which brings out in graphic form the facts in regard to the developed electric plants of Canada. The distribution of the available and developed water power between the different provinces is given in the next table:

DISTRIBUTION OF WATER POWER

Province	Available h. p. per annum	Developed h. p. per annum
Ontario	5,800,000	985,060
Quebec	6,000,000	842,761
Nova Scotia	100,000	26,024
New Brunswick	300,000	14,869
Prince Edward Island	3,000	1,729
Manitoba	3,218,000	76,172
Saskatchewan	567,000	.....
Alberta	466,000	32,880
British Columbia	3,000,000	213,423
Yukon	100,000	13,392
Total for Canada	19,554,000	2,305,310

The bearing of these great resources upon the future manufacturing power of the country is significant, especially when the fact is held in mind that the electric power companies are adopting a policy of maintaining industrial depart-

ments whose duty it is to locate industries in the territory served by such companies. The combination of cheap power, favorable living conditions for labor and good labor markets is rapidly transforming Canada from a country which a few years ago was almost wholly agricultural to one in which the manufacturing interests are of great and growing importance.

CHAPTER IX

Manufacturing Industries

CANADA has made great strides in manufacturing development. In 1890 the output of manufactured products was valued at \$368,700,000. Ten years later, in 1900, the value of manufactured products was estimated at about \$480 million. The output for 1910 was valued at \$1,165,975,000; for 1915, at \$1,381,547,000; and for 1917, the last year for which statistics are available, at \$3,015,577,000. While such a rate of acceleration may be regarded as abnormal, having been greatly stimulated by the need of supplies for the army and of munitions, yet undoubtedly the manufacturing industries of Canada are firmly established upon the secure basis of ample supplies of the principal raw materials, of cheap water power, and of a high degree of mechanical and managing skill. Probably about \$3,000 million is now invested in manufacturing enterprises.

One marked result of the war has been the change in the relative importance of agricultural and industrial pursuits. This may be illustrated best, perhaps, by the following comparative table of total merchandise exports of domestic products and the percentages of agricultural products and of manufactured products to the total.

		(In Millions)					
Year ended March 31		1914	1915	1916	1917	1918	1919
		\$	\$	\$	\$	\$	\$
Total Exports		431	409	741	1,151	1,540	1,216
Agriculture		198	134	249	373	568	271
% Agriculture		45.9	32.7	33.6	32.4	36.8	22.3
Manufactures		57	85	242	477	636	555
% Manufactures		13.2	20.7	32.6	41.4	41.3	45.6

To students of history the profound importance of this increased activity in industrial undertakings will be apparent. The impetus given by the war necessities to manufacturing will not be lost, but undoubtedly will prove to be one of the most important developments of that period.

Census of Manufactures

The Dominion Bureau of Statistics has published interesting data compiled from a recently completed census of manufactures for the year 1917. These data are the latest official statistics available in regard to manufacturing enterprises in the dominion. The returns cover 34,380 establishments and show a remarkable development in this branch of Canadian industry when compared with the census of 1915 as summarized in the following table:

MANUFACTURING STATISTICS

(000 omitted)

Calendar Year	1917	1915	Increase
Capital invested	\$2,772,517	\$1,994,103	\$778,414
Employees on salaries	73	52	20
Salaries paid	\$95,983	\$60,308	\$35,675
Employees on wages (including pieceworkers)	619	462	157
Wages paid	\$457,245	\$229,456	\$227,789
Cost of materials	1,602,820	802,133	800,686
Value of products	3,015,506	1,407,137	1,608,369

It will be noted that the gross value of goods made in Canada in 1917 was upward of \$3,015 million, while the cost of the materials was upward of \$1,600 million, leaving a net value added by the process of manufacture of upward of \$1,400 million.

What the census terms "twenty leading industries" which contributed 57 per cent. of the gross value and 51 per cent. of the net value of the total products may be roughly classified into five groups. The metal trades and building operations lead all the others. Animal products such as meat, butter and cheese, and manufactures of leather, including boots and shoes, provided the next largest amount toward the gross total. Then came the manufactures of vegetable products, such as flour and other grist-mill products, bread, confectionery and refining of sugar. Last but one in importance in gross output we have the manufactures of wood, such as lumber in its various forms, pulp wood, paper pulp and paper. However, while the forest products were fourth in importance so far as gross output is concerned, they came second in importance so far as net value of the output is concerned. Electric light and power and electrical appliances and supplies furnished the fifth largest item in connection with both gross and net output. These facts are more clearly indicated by the following table:

PRINCIPAL MANUFACTURES—CLASSIFIED

CALENDAR YEAR 1917

(00,000 omitted)

METALS AND BUILDING	Gross Value	Net Value
Steel furnaces	\$170,6	\$62,0
Munitions	112,8	70,2
Cars, etc.	78,5	39,8
Smelting	69,2	33,6
Foundry, etc.	66,9	43,3
Iron and Steel products	58,8	26,8
Automobiles	54,5	18,8
Building.	54,7	32,9
	<u>666,0</u>	<u>327,4</u>

PRINCIPAL MANUFACTURES—CLASSIFIED—*Continued*

ANIMAL		
Meats.	206,6	50,7
Butter and cheese	85,7	13,7
Boots and shoes	49,1	22,4
Leather	41,1	14,5
	<u>382,5</u>	<u>101,3</u>
VEGETABLE		
Flour and grist-mill products.	224,1	40,6
Bread, biscuits and confectionery	77,2	33,0
Sugar, refined	73,2	20,1
	<u>374,5</u>	<u>93,7</u>
FORESTS		
Log products.	115,8	75,1
Pulp and paper.	96,3	61,6
	<u>212,1</u>	<u>136,7</u>
ELECTRIC		
Light and power	44,5	44,5
Appliances and supplies	40,2	20,0
	<u>84,7</u>	<u>64,5</u>
Grand Total	<u>\$1719,8</u>	<u>\$723,6</u>

Up to the present time Canada has necessarily imported an important part of the raw materials entering into the manufacture of metal products. On the other hand, the vegetable, animal and forest products, with the exception, of course, of sugar, certain chemicals, and, to a certain extent, of leather, are largely manufactured from raw materials produced within the dominion.

At the present time the United States is dependent on Canada for an important part of her supply of newsprint paper and of wood pulp and pulp wood from which such paper is manufactured. In 1914 we imported about 20 per

cent. of the paper consumed, while in 1919 the imports, chiefly from Canada, were around one-third of the consumption.

Developments in the iron and steel trade of Canada now in process with a view to the consolidation under the management of one great corporation of the different industries dependent upon iron and steel for their raw material are expected to revolutionize manufacturing along these lines.

Foreign Owned Factories

An important post-war development is that of the opening of branch factories in Canada by British manufacturers, a policy heretofore pursued and now being developed in a marked way by manufacturing interests from the United States which on good authority are stated to have over 600 branch or subsidiary factories in Canada. Representative American owned plants or plants largely so owned are those of the International Nickel Company; the Montreal Locomotive Works-Ltd., owned by the American Locomotive Company; The Canadian Consolidated Rubber Co., owned by the United States Rubber Company; the United States Steel Corporation's plant at Hamilton, Ont.; the Ford Motor Company of Canada, Ltd.; the Canadian General Electric Company, Ltd.; and subsidiaries of the International Paper Company. Canada thus gains the advantage of the development of its industries by foreign capital and of industries necessary to supply their requirements. The increased population which such industries encourage provide an added market for the food products of the dominion. On the other hand, the profits of these industries to the extent that they are not reinvested in the businesses are taken out of the country instead of being used in its development as would be the case if these industries were owned at home.

"Made in Canada" Campaign

The "Made in Canada" movement is daily gaining strength. The government is in sympathy with the campaign. It has the support of the Canadian Trade Commission, Canadian Reconstruction Association, Canadian Manufacturers Association and other public bodies. Various organizations, such as the National Council for Women, the Daughters of the Empire, and the Daughters of Canada, have urged upon women buyers the necessity of buying Canadian goods. Labor papers have endorsed the campaign and exhibitions of "Made in Canada" goods are being promoted at home and abroad. Moving pictures are being used to the same end.

The reason given for this special campaign is the heavy discount on Canadian exchange in New York for which it is believed the only permanently effective remedies are an increase in production in the dominion, development of export trade, curtailment of unnecessary imports and substitution, to the largest possible extent, of Canadian products for imported commodities. It is felt that Canada must obtain a larger measure of economic independence.

Canadian men of business believe that the world exchange situation threatens seriously to curtail orders from overseas, especially for manufactures, and that if the slack is to be taken up it must be by an increased support from the home market.

It is important that American manufacturers and exporters, as well as our bankers, should carefully note these facts and do everything in their power to bring back to parity the Canadian-United States exchanges. We cannot afford to be indifferent to a condition which so vitally affects trade relations with so important a customer as the Dominion of Canada

On the other hand, as is fully realized by enlightened public opinion both in Canada and in our own country, as well as in the money centers overseas, this is not merely a Canadian-United States problem. It is a world problem the only permanently effective remedy for which is for the world once more to settle down to work, to stop all governmental and private waste, for the governments to stop new borrowing and pay their way from taxation and to pay off or refund governmental floating debts and for the people to pay for their government bonds and take them out of bank loans. When these things are done this world dislocation of the exchanges and of industry will be righted and not until then. It is encouraging to know that in Great Britain and in Canada, as well as in our own country, such measures are being inaugurated. If courageously carried through, they should in the not distant future bring about the needful readjustments.

CHAPTER X

The Tariff

CANADA has a protective tariff which figures out at a slightly higher rate on dutiable goods than in the United States. During the war Canada added a $7\frac{1}{2}$ per cent. war tax on her customs duties on many articles, and so long as this was in force, it raised Canada's average rate about $5\frac{1}{2}$ per cent. above the present rates. This war tax was first imposed late in 1915 and continued in force until May, 1920. Canada's tariff is now back to its pre-war level. The latest figures available afford the following comparisons:

	U. S. A. Year Ended Dec. 31, 1919	CANADA Year Ended Mar. 31, 1920
Total imports of dutiable goods . . .	\$1,205,202,766	\$693,643,211
Total imports of free goods	2,699,203,561	370,872,966
Total duty collected	249,774,758	†187,524,182
		*156,154,885
Average duty collected on all imports.	6.39%	†17.61%
		*14.66%
Average duty collected on dutiable imports	20.72%	†27.03%
		*22.51%
Average tariff duty collected by head of population	\$2.33	†\$20.83
		*17.35

†With war tax.

*Without war tax.

Canada's imports of dutiable goods in June and July of 1920, subsequent to the repeal of the war tax, were \$174,392,-421. The duty collected was \$36,114,948, or 20.71 per cent.; substantially the same as the average of 20.72 per cent. col-

lected by the United States for 1919. This is nearly two per cent. lower for Canada than the average of the twelve months ending March 31 with war tax omitted.

From an inspection of these figures it is apparent that the United States has relatively a much larger free list and that the incidence of the tariff upon her people is very much lighter than in the case of Canada. In addition to the high protection afforded by the tariff, Canada's manufacturers have received many other special favors. There have been large federal bounties to industries and several of the provinces have given bonuses, loans, tax exemptions and reduced assessments to those establishing industrial enterprises within her borders. Since April, 1919, the premium on New York exchange has operated as an additional stimulus to Canadian home trade, as it has been equivalent to an additional protective duty, which for several months past has averaged around ten per cent.

The Canadian tariff is of a threefold character. There is the "general tariff," a "preferential tariff" with Great Britain and certain of the British dominions and colonies, and an "intermediate tariff," of which several nations have the benefit in part.

The Preferential Tariff

For some time Canada has had reciprocal trade agreements with the United Kingdom, New Zealand, South Africa and British Guiana. Australia does not extend any tariff preference to Canada. Reciprocal trade agreements have been in force between Canada and the British West Indies since 1913, and by the trade agreement concluded at Ottawa in July, 1920, the existing mutual preference is, in certain cases, increased, while the free list is also extended. Under the

terms of this agreement, Canada grants a preference on all goods imported into Canada being the produce or manufacture of any of the British West Indies, which are now subject to duty or which may be made subject to duty at any future time.

The Intermediate Tariff

In 1907 a commercial treaty with France brought most French imports under a special intermediate tariff. This tariff was automatically extended to "favored nations," including Argentina, Denmark, Japan, Norway, Russia, Spain, Sweden, Switzerland and Venezuela. This French treaty was denounced by Canada and France in June of this year, but the favored nations continued to enjoy the benefits of another intermediate tariff which was originally arranged and is still effective with Belgium and the Netherlands and which is only slightly higher than the intermediate tariff with France.

Customs Duties Important Source of Revenue

Canada's tariff on imported goods not only is used to develop manufacturing enterprises, but the customs duties collected under this tariff provide an important portion of the revenue of the dominion; in fact, the revenue from the customs is the largest single source of revenue which the dominion enjoys, affording 43.33 per cent. of the revenue for the last fiscal year and 51.30 per cent. of the total revenue for the six years elapsed since the war with Germany was begun.

Inter-Provincial Trade

The commerce between the provinces is free, just as is the commerce between the different states of the United States.

However, there is this important difference: that in the United States there are all kinds of climates and products so that this freedom of trade within the boundaries of the country is of great importance and brings about a balanced trade which, while it does not free the United States from the necessity of importing foreign products, does to a large extent make our people self-supporting. In the case of Canada, there is not the same diversity in the home trade, while the needs of the people for foreign goods are substantially the same throughout all the provinces. This condition, however, has been changing materially in recent years because the eastern provinces have been devoting their activities along agricultural lines more to the production of dairying products and fruits and root crops and less to the production of cereals which, to an important degree, have become a monopoly of the middle western provinces. The development of manufacturing has also made it possible for the eastern provinces to supply the western provinces to a large extent with agricultural and other machinery.

Still, after making all allowances, the fact remains that the country as a whole seeks outside of its own borders a large percentage of the necessities and luxuries of life and that it must also to a great degree come to the United States for the raw materials of manufacture.

Imperial Preference

As an illustration of the disposition on the part of the British family of nations to encourage what might be called empire "home markets" it is interesting to note that the British chancellor of the exchequer announced in his budget speech in April, 1919, that he proposed to introduce a measure of protection giving substantial preference to countries within

the empire. This was greeted with unanimous approval by those who hoped for greater coöperation and closer ties between the dominions and colonies and the motherland. The expectation was that this preferential treatment would benefit especially the tropical portions of the empire which would find opened to them a natural market of a character which would enable them to extensively develop their fruitful lands. Based on this recommendation the British parliament enacted a law which became effective on September 1, 1919. This law applies to goods which are shown to the satisfaction of the customs authorities to have been (1) consigned from, and (2) grown, produced or manufactured in the British empire. Goods are deemed to have been manufactured in the British empire, provided 25 per cent. of the cost of manufacture is shown to have been the result of labor within the empire. However, in the case of manufactured tobacco, refined sugar, molasses and other extracts of sugar, the proportion of empire labor is fixed at only 5 per cent., but preferential rates apply only to such proportion of these goods as corresponds to the proportion of material of empire origin used in their manufacture.

The preferential rebates granted under this act amount to one-third of the duty in the case of manufactured goods and one-sixth of the duty on foodstuffs and tobacco. There is a special schedule of rebates on wines and spirits. Canada is expected to derive considerable benefit from this legislation.

CHAPTER XI

Foreign Trade

THE commerce of Canada has grown steadily year by year. For the five fiscal years ended June 30, 1902-1906, inclusive, the merchandise imports for consumption averaged \$239,956,000. For the five fiscal years ended March 31, 1908-1912, inclusive, they averaged \$396,621,000, while the average of the five fiscal years 1913-1917, inclusive, was \$619,433,000. In the fiscal year 1918 the imports were \$962,543,000, in 1919, \$916,429,000, and in 1920, \$1,064,516,000.

The exports of Canadian merchandise for the fiscal years 1902-1906, inclusive, averaged \$207,034,000; for the fiscal years 1908-12, inclusive, they averaged \$266,670,000; for 1913, they were \$355,754,000; for 1914, \$431,588,000; for 1915, \$409,418,000. Thereafter the exports were greatly increased on account of shipments of munitions and other war supplies, reaching a maximum in the fiscal year 1918 of \$1,540,027,000. As was to be expected, a return to peace conditions materially reduced the value of the exports which totaled \$1,216,443,000 for the fiscal year 1918-1919. In the year ended March 31, 1920, the exports were \$1,286 million.

The foreign trade of Canada during and since the war is discussed in considerable detail in Chapter II, beginning with page 13. The supplementary tables printed herewith, set forth in comparative form the data for each of the past seven years.

FOREIGN TRADE

MERCHANDISE EXPORTS CLASSIFIED

(000,000 omitted)

Years Ended March 31	1914	1915	1916	1917	1918	1919	1920
Imports	\$	\$	\$	\$	\$	\$	\$
For Consump- tion (Mdse.)	619	455	508	845	962	916	1,064
Exports							
Canadian Produce							
Mines	59	52	67	86	74	77	**..
Fisheries . . .	21	20	22	25	32	37	....
Forests	43	43	51	56	52	71	....
Animals	53	74	103	128	173	199	....
Agriculture . .	198	134	249	373	568	271	....
Manufactures .	57	85	242	477	636	555	....
Miscellaneous .	...	1	7	6	5	6	....
Total	431	409	741	1,151	1,540	1,216	1,239
Foreign Produce	24	52	38	28	46	52	47
Total Exports— (Mdse.)	455	461	779	1,179	1,586	1,268	1,286
Total Merchandise Trade	1,074	916	1,287	2,024	2,548	2,184	2,350
Balance of Trade (Mdse.)							
Excess Imports.	164	...	...	...	...	...	...
Excess Exports.	...	6	271	334	624	352	222
Specie—Net exports (—) or imports (+) . .	—8	+102	—69	—168	+9	‡	‡
United Kingdom Trade—Excess Exports to . . .	90	122	386	649	780	487	φ 370
United States Trade—Excess Imports from .	218	111	153	374	352	270	φφ 300

**On account of adoption of new classification comparative figures for items cannot be given. ‡ Figures not published. φSix years 1915-1920, \$2,794 million. φφSix years 1915-1920, \$1,560 million.

The recent adoption of a new system of classification gives interest to the next table comparing the business

of the year ended March 31, 1920, with that of the previous fiscal year.

FOREIGN TRADE

MERCHANDISE EXPORTS CLASSIFIED 1919-1920

(00,000 omitted)

Fiscal years ended March 31	1919				1920			
	Imports		Exports		Imports		Exports	
	Free	Duti- able	Do- mestic	For- eign	Do- mestic	Duti- able	Free	For- eign
Agricultural and vegetable products, mainly foods . .	\$ 33.9	\$ 73.1	\$ 262.0	\$ 22.8	\$ 37.9	\$ 128.5	\$ 383.3	\$ 4.8
Agricultural and vegetable products, other than foods.	39.6	11.6	26.9	2.8	48.3	28.4	32.8	1.5
Animals and animal products	16.9	25.4	244.9	9.3	42.1	52.7	314.0	6.5
Fibres, textiles and textile products	73.8	101.2	28.6	1.8	73.3	151.4	34.0	3.9
Chemicals and chemical products	18.5	17.4	55.2	1.3	13.2	17.3	21.1	3.5
Iron and steel, and manufactures thereof	55.7	135.0	82.8	6.1	31.0	153.7	82.1	18.0
Ores, metals and metal manufactures, other than iron and steel	15.6	24.3	80.6	0.9	19.2	34.3	56.1	2.5
Non-metallic minerals and products	42.8	89.3	25.3	3.1	58.2	61.3	29.2	0.5
Wood, wood products, paper and manufacturers	16.0	19.7	154.6	0.3	18.3	24.8	213.9	0.5
Miscellaneous	76.7	29.1	255.0	3.4	28.6	40.6	72.6	4.9
*Total	389.9	526.4	1,216.4	52.3	370.8	693.6	1,239.4	47.1
Total trade	916.44		1,268.7		1,064.4		1,286.5	
Duty collected	158.0				187.5			

*Totals exceed sum of items on account of omitted figures.

†Entered for home consumption.

Canada's Principal Customers

Canada interchanges more business with the United States than with any other nation in the world, although the trade

is not a balanced trade, the imports from the United States largely exceeding the exports to our country. On the other hand, the United Kingdom is Canada's second best customer, but in her case the exports from Canada largely exceed the imports from the United Kingdom.

The trade of Canada interchanged with the United Kingdom, the United States, and other countries for the fiscal years ending March 31, 1914-1920, inclusive, may be seen by reference to this comparative table:

FOREIGN TRADE
MERCHANDISE
With United Kingdom, United States
and other countries
(000,000 omitted)

Fiscal Years	1914	%	1915	%	1916	%	1917	%	1918	%	1919	%	1920	%
	\$	all	\$	all	\$	all	\$	all	\$	all	\$	all	\$	all
United Kingdom														
Exports to . .	222	48.8	212	46.0	463	59.4	756	64.1	861	54.3	560	44.1	496	38.57
Imports from . .	132	21.4	90	19.8	77	15.2	107	12.7	81	8.4	73	7.9	126	11.84
Total trade . .	354	33.0	302	33.0	540	42.0	863	42.6	942	36.9	633	29.0	622	26.47
United States														
Exports to . .	177	38.9	186	40.3	217	27.9	290	24.6	440	27.7	477	36.8	501	38.96
Imports from . .	395	53.9	297	55.3	370	72.8	664	78.5	792	82.2	747	81.6	801	75.28
Total trade . .	572	53.4	483	52.7	587	45.6	954	47.1	1,232	48.4	1,224	56.0	1,302	55.40
All other countries														
Exports to . .	56	12.1	63	13.7	99	12.7	133	11.3	285	17.9	232	18.3	289	22.47
Imports from . .	91	14.8	68	14.9	61	12.0	74	8.7	90	9.4	96	10.5	137	12.88
Total trade . .	147	13.6	131	14.3	160	12.4	207	10.3	375	14.7	328	15.0	426	18.13
All countries														
Exports to . .	455	100	461	100	779	100	1,179	100	1,586	100	1,269	100	1,286	100
Imports from . .	618	100	455	100	508	100	845	100	963	100	916	100	1,064	100
Total trade . .	1,073	100	916	100	1,287	100	2,024	100	2,549	100	2,185	100	2,350	100

CHAPTER XII

Invisible Trade Balance and the Exchanges

IN reviewing the trade of Canada it is important to consider what, for lack of a better term, are known as the "invisible" exports and imports.

Invisible Trade Balance

For years prior to the war Canada was a heavy borrower in British money markets. Not the dominion government alone, but also the provinces, municipalities and the public and private corporations borrowed in Great Britain a large part of the capital required for governmental purposes and for the development of the country's material resources. It is estimated that Canada owes to Great Britain on account of public and corporate borrowing around \$2,500 million, the interest on which sum calls for annual remittances to London of some \$125 million. Then the major portion of Canada's overseas trade is carried in British ships, while the cargoes are largely insured in British insurance companies. The fire insurance business of Canada is conducted largely by British or British owned insurance companies. Considerable blocks of Canadian bank stocks are also British owned. The dominion statistician estimates that for the period 1900-1914 the invisible imports called for remittances, chiefly to Great

100]

Britain, averaging \$275 million a year. Recent estimates place the amounts due annually for interest, dividends, freights insurance, et cetera, to Great Britain and to other European nations at an aggregate of perhaps \$250 million. Assuming all such payments eventually to be cleared through London, they would materially reduce the net trade balance due from London—say for the fiscal year just ended from \$370 million to around \$120 million.

On this continent the adverse balance of trade with the United States has been increased in recent years by the fact that Canada, always a considerable borrower in the United States, has greatly increased her borrowings during the years of the war, while United States manufacturers have found it advantageous, on account of the Canadian tariff, to manufacture in Canada goods to be sold there and consequently have made large investments in subsidiary factories located in Canada. It is estimated that the interest and profits payments to United States investors as a consequence of this condition run into large figures, perhaps aggregating \$75 million or more a year. Whatever such payments amount to, they correspondingly swell the amount due on balance to the United States. Canada must also pay the United States on balance quite a large amount annually for life insurance premiums and for freights, interest, and insurance on business interchanged.

On the other hand, the "principal" of the new investments and that represented by the reinvestment of profits by Americans from time to time act as a corrective to the ad-

[†]36 per cent. of the life policies in force in Canada are carried by American life insurance companies.

verse exchange conditions. The present tendency is to increase these American investments in Canada and for British investments to decrease by reason of home demands and of the costliness of remitting British funds to Canada under present exchange conditions. Total Canadian bond sales in the United States increased from \$54 million in 1914 to over \$199 million in 1919, while such sales in the United Kingdom decreased from \$186 million in 1914 to \$5 million in 1919. The total American investment in Canada is variously estimated at from \$1,250 million to \$1,600 million, or say about one-half of the British investment.

Recently exchange conditions have favored the purchase in London by Canadian investors of Canadian securities held there. This movement was assuming important proportions when the government interposed in the interests of the general trade situation.

After a conference with the minister of finance the banks and the bond dealers came to a voluntary understanding with the government to discontinue such purchases for the time being. It is estimated that during the war period around \$200 million securities, par values, were repurchased from England. All but some \$25 million to \$30 million are supposed to have been resold in the United States.

The total investment of foreign and British capital in Canadian securities and properties at the present time is probably not far from \$4,000 million, calling for annual payments for interest and profits aggregating around \$200 million.

We may summarize these data as follows:

INVISIBLE TRADE BALANCE

For six years 1914-1919, inclusive

In Millions

Payments by Canada	To Great Britain or settled though G.B.	To United States
Interest and profits payment . . .	\$750	\$330
Shipping charges, insurance, etc. .	240	90
Goods sold on credit to Rumania and Belgium	60	....
Net advances to Great Britain . .		....
By Dominion Government . 138		
By Chartered Banks 200		
	<u>338</u>	<u>....</u>
Securities repurchased	200	....
	<u>1,588</u>	<u>420</u>
Less for securities—sold	298	900
	<u>1,290</u>	<u>480*</u>

*Receipts from U. S.

The Exchanges

We are now in a position to intelligently consider the bearing of the trade statistics, in banking parlance, upon "the exchanges." Ordinarily the average man in business is willing to leave such questions to be handled by those of the banking fraternity who deal in "foreign exchange." On account of the manner in which all lines of business are now affected by the world-wide dislocation of business and the greatly increased interchange of business with foreign countries during the war and since the armistice, an understanding of foreign exchange problems has become a necessary part of the equipment of almost every man in business.

The fundamental principles of "exchange" operations are quite simple. If the purchases and sales between two parts of

our own country or between our country and another exactly balanced, the drafts would meet in the clearing house and cancel each other and there would be no exchange problem.

It is the fact that trade does not so balance that creates the necessity for the use of banking methods which will permit commerce to take its course to any country and at any time of the year, wherever and whenever a profitable market for its wares can be secured.

Pre-War Exchange Conditions

Prior to the war, by common consent, London was the great clearing house of the world. It had become well-nigh a universal practice to settle transactions arising from the world's commerce by drafts on London.

Canadian banks, through the purchase of drafts against shipments of Canadian exporters, accumulated large credits in the London market. They were thus in a position, through their agencies in the United States, to sell to American importers from Great Britain drafts on London and in this manner to transfer to the United States the London credits, which in turn were then available to settle the balances due in the United States by Canadian merchants and manufacturers.

Similar operations from all over the world centered finally in London, mutually cancelling each other, small resulting balances being settled by shipments of gold from or to London as the exigencies of trade required.

Unfortunately this normal course of trade has been upset by the resort of nearly every country to the excessive use of paper money and of other credit instruments which have grown to be of great volume and by the prohibition of or by restriction upon the export of gold. These paper currencies are valueless to pay debts in foreign countries. Such debts

must be settled with commodities or in a currency having a commodity value. For most countries this currency is gold. When the purchases and sales of merchandise—including the invisible exports and imports already illustrated—do not balance, then there are only two methods of settlement possible. Either the debtor country must send to the creditor country gold coin or bullion, or the creditor country must be willing to await payment until the debtor country can produce and send forward goods which the creditor country is willing to accept in payment and in the meantime individual debtors who must make settlements must purchase gold for remittance at whatever premium may be demanded or borrow from their creditors on the best terms which they are willing to grant. As a practical matter, settlements are made through the banks and the premium paid by the debtor for drafts represents the cost to the bankers of effecting such arrangements and their moderate profits in connection with the transactions. Normally this premium is small, just enough to cover the cost of shipping gold plus a fractional profit, but now a premium must be paid for gold which must be added to the shipping charges, while the prevailing rates of interest add largely to the cost of drafts. Thus the fluctuations in the cost of drafts under these abnormal conditions, instead of being nominal, become a serious factor in settling international balances.

Prior to the war and until March, 1918, the difference between the high and low rates of Canadian-United States exchange was usually not more than one per cent. above or below par. That is to say, when Canada was exporting her crops the balance of exchange was in her favor and drafts on New York were at a discount—that is, the exchange was against New York. On the other hand, in the Spring and Summer, when Canada had large payments to make on

balance in the United States, drafts on New York were at a premium because they had to be covered by remittances of gold, or, what amounted to the same thing, by the reduction of credit balances held in reserve in New York for just such contingencies.

Exchange Conditions During the War

Unsettled political conditions in Europe subsequent to the news of Austria's peremptory ultimatum to Serbia on July 23, 1914, followed by the startling news on the 28th that Austria-Hungary had declared war on Serbia, led to tight money markets throughout the world and to weak stock market conditions. Foreign bourses were in a state of panic. London and New York were the only important open markets. They were flooded with international securities. Great quantities of American securities thrown upon the New York market caused a rise in exchange to \$4.94 prior to August, and to a demand for large gold exports. The credit paralysis occurring in London and on the continent following the general declaration of war between the 1st and 4th of August, 1914, threw an added strain on the New York market and, as they had no available credits abroad, foreign exchange houses were unable to draw. At the same time there was a very active demand by American tourists for funds to replace those which had been tied up. The purchases of people making such remittances to their relatives and friends led to small transactions as high as \$7 to the pound for cable transfers. Practically for the time being there was no exchange market, although there were nominal quotations for cable transfers at \$6.25 to \$6.75.

All the banking centers in the world were endeavoring to obtain sterling exchange and seeking to convert their credits into sterling. The only place in the world where moratoria

had not been declared was in the United States; consequently other countries were trying to use their credits in the United States to pay London. On account of the moratoria New York could not use her offsetting credits so that she was called upon to pay her own liabilities, but she was not in a position to collect from her creditors. For a brief period New York bankers were staggered by the situation, but, realizing that the credit standing of New York depended upon its ability to successfully cope with the situation, a bankers committee was organized and a gold fund of \$100 million was mobilized to be used in remedying the exchange situation. As a result, by the end of December, 1914, exchange became normal and then as the demands of the warring countries for all sorts of supplies from the United States became insistent, the exchange turned in favor of New York, and by July, 1915, had reached \$4.77, the lowest point ever known up to that time.

In July, 1915, the British Treasury took an important step with a view to helping the exchange situation by instructing the Bank of England to purchase American dollar securities in London and transmit them to New York for sale; these operations were continued until the close of the year, at which time securities amounting to the nominal amount of \$233 million had been purchased. In the meantime the exchange fluctuated between \$4.77 and \$4.51 but with an upward tendency from the end of October.

In December, 1915, a scheme was launched for the mobilization of the foreign investment holdings of the British people on a large scale and the use of such holdings to stabilize the American exchanges and to create credits in America against which purchases of munitions and other necessary supplies could be financed. The holders of such securities were asked to sell them or lend them to the Treasury for sale



in America or for use as collateral for issues of dollar bonds to be sold in the United States. The owners of the securities used as collateral received a certificate entitling them to the interest which the loaned certificates yielded plus a payment at the rate of one-half per cent. per annum. The response to this request was spontaneous and resulted by the end of 1916 in the acquisition by the British Treasury of American stocks and bonds of the par value of \$2,259 million. The entrance of the United States into the field in April, 1917, as an active participant in the conflict put an end to further important financing of this kind, as from that time on the United States government made direct advances to Great Britain which in the end aggregated \$4,277 millions. The result of the efforts to stabilize exchange against the mobilization of American securities or against the direct loans by the United States government was that New York exchange was maintained at practically a uniform rate of \$4.76 7-16 until March 21, 1919, when the control was removed.

When the London-New York exchange rates broke in April, 1919, the Montreal-New York rates followed suit. The premium on American drafts in Canadian cities which had risen to two per cent. during 1918 became three per cent. in the Spring of 1919; four per cent. in the early Autumn; by November, six per cent.; in December, 11 per cent.; while in February, 1920, it reached 17½ per cent., and now (August, 1920) is about 12 per cent. This premium measures the inducement which the Canadian merchant is obliged to make to anyone who will provide funds with which to enable him to meet his obligations in this country. This, then, for the Canadian is a favorable market in which to sell securities or goods, because by so doing he can realize a premium, at the August rate twelve dollars on each \$100, above the selling price of the

goods by disposing of his draft on New York to someone who has a payment to make in the United States. Conversely the Canadian purchaser of goods or securities in the American market is penalized by the discount on Canadian dollars, say in August, 1920, about 12 per cent., because he must pay one hundred and twelve dollars Canadian money in order to meet a debt of one hundred dollars in American money. Thus the prices of all commodities which Canadians buy in the United States are raised, although the return for those sold here is correspondingly increased to the extent of the premium on New York exchange at the time of purchase or sale. We have seen how much the Canadians depend on us for coal and raw materials; therefore we can appreciate why this state of affairs has stimulated the "Made in Canada" movement. In the end, though, it largely harks back to the dislocation of the London-New York exchange. Although there are factors which are not in common, yet when the London-New York exchange is corrected the Montreal-New York exchange should gravitate to a normal status.

Trade Balance 1914-1919 Allowing for Invisible Factors

It may now be of interest to summarize the data given in the preceding tables.

BALANCE OF TRADE IN FAVOR OF OR AGAINST CANADA

For six years 1914-1919 inclusive

(In millions of dollars)

	With United Kingdom	With United States	With Other Countries	With All Countries
Visible	Cr. 2,794	Dr. 1,560	Cr. 579	Cr. 1,813
Invisible	Dr. 1,290	Cr. 480	.....	Dr. 810
Total	Cr. <u>1,504</u>	Dr. <u>1,080</u>	Cr. <u>579</u>	Cr. <u>1,003</u>

NOTE:—Cr.=favor of Canada; Dr.=against Canada.

We thus see that for the period of the war and since, after making allowance for net invisible imports calling for payments amounting to about \$810 million, Canada has a net credit of about \$1,003 million, or say \$167 million a year. Unfortunately we are unable to obtain the statistics of the imports and exports of gold for the period. By combining the Canadian and United States statistics we find that the net exports of gold to the United States amounted to \$235 million which, with the net invisible exports which brought in \$480 million, cancelled about half of the debit balance due to the United States. The resultant credit balance for the entire trade of the country for the period of six years under review is thus found to be \$1,238 million, i.e., credit balance as per table, \$1,003 million, plus \$235 million net gold exports to the United States†.

Unbalanced Trade with Great Britain Controlling Factor

The unbalanced trade between Great Britain and the United States is the controlling influence in the present discount on the Canadian dollar at New York. It is essential to keep in mind that if sterling is at a discount in New York it is at a premium at every other important center in Europe. If London were in a position to transfer its continental credits to New York, sterling would be quickly reestablished to a normal basis in that market, and if Canadian credits could be converted to exchange at New York, Canadian indebtedness at that center could be easily supported and the Canadian dollar would be worth its face value. For reasons of political and economic policy Great Britain has been selling to a con-

†Possibly Canada should not be given credit for the entire \$235 million net gold exported to the United States as a certain amount of such exports simply may have been made through the United States for British account.

siderable extent to continental Europe on credit rather than for cash, just as Canada has been selling to Great Britain.

Owing to the exigencies of the exchange situation, Canada is now carrying abroad larger balances than in the past. On the other hand, Americans are carrying unusually large balances in Canada which have been gradually accumulating there in the hope that the discount on Canadian dollars would lessen so that funds might be transferred from Montreal to New York without too great a loss of exchange. The following tables visualize the changes which have taken place since February, 1918, in the relative status of amounts due to or from the chartered banks by British and foreign clients.

BANKS ASSETS HELD ABROAD
(In dollars 00,000 omitted)

	Call and Short Loans, Foreign	Other Loans, Foreign	Due from Banks, United Kingdom	Due from Banks, Foreign	Total	Increase
February, 1918	160,2	109,6	11,1	45,9	326,8	
February, 1919	155,9	130,6	9,2	42,6	338,3	+11,5
February, 1920	184,4	180,7	16,2	49,7	431,0	+92,7
June, 1920	219,2	184,3	15,0	69,5	488,0	+57,0

BANKS LIABILITIES TO BRITISH and FOREIGN DEPOSITORS

	Deposits Else- where than in Canada†	Due to Banks U. K.	Due to Banks Foreign	Total	Increase
February, 1918 . .	183,2	2,7	24,9	210,8	
February, 1919 . .	200,5	3,4	23,9	227,8	+17,0
February, 1920 . .	277,4	7,7	40,7	325,8	+98,0
June, 1920 . .	360,3	6,8	37,1	404,2	+78,4

†These are deposits made in branches without Canada. Deposits made in Canada by citizens of the United States or other foreigners are included in the total deposits in Canada (See Table on page 50), therefore it is not possible to distinguish the deposits left by people of the United States owing to the dislocation of exchange. However, it is a fact that there is a considerable amount of United States money held up in Canada for this reason.

CHAPTER XIII

The Railways

ALL settled parts of Canada can be conveniently reached by railway and steamship lines. At the end of March, 1920, Canada had 39,899 miles of completed steam railways, in addition to which there were 7,041 miles of railroad in the United States controlled and operated by Canadian companies, making a total of 46,940 miles of road owned by Canadian interests, of which 22,354 miles were owned or controlled by the dominion government, 19,772 miles by the Canadian Pacific Railway Company, while of the remaining mileage 2,063 miles were owned by small independent lines, 2,284 miles by American companies having extensions in Canada and 328 miles by the Ontario government.

Government Ownership

In Canada the government has owned a railway from practically the earliest days of railway construction, but it was not until after the great war was entered upon that government ownership became an important factor in the dominion railroad situation. Prior to that time the government had entered the railway situation chiefly by giving subsidies and land grants, by direct loans or by guaranteeing the securities issued by the railway companies. On June 30, 1916, the dominion government owned 3,599 miles of railroad or not quite ten per cent. of the total railroad mileage. Of the remaining mileage about 13,000 miles were owned and operated by the Canadian Pacific, a strong, prosperous corporation, and about 3,500 miles by the Grand Trunk Rail-

way, also a self-supporting private corporation. Nearly 10,000 miles were owned by the Canadian Northern and about 2,000 miles by the Grand Trunk Pacific. It was the financial difficulties of the two companies last named which led to the extension of government railway ownership.

Railway History

The railway history of Canada has gone through three distinct stages. The Grand Trunk Railway, which dates its charter from 1851, came into existence almost entirely as the result of the investment of private capital, largely British.

In 1880 the Canadian Pacific Railway was organized for the purpose of completing a transcontinental line the construction of which had theretofore been undertaken by the dominion government and upon which the government up to that time had expended upward of \$37 million. The Canadian Pacific received much financial assistance from public funds both from the dominion and from the provinces and it also received large land grants. Public assistance either directly or indirectly given to the company is estimated to have been more than \$228,500,000. In addition it has raised hundreds of millions of new capital from private sources largely from the sale of ordinary (common) stock which now has a book value of around \$120 a share. It has become a great and successful corporation operating a system of nearly 20,000 miles of road.

The third period of railroad development was that which had to do with the construction of the lines heretofore owned by the Canadian Northern and the Grand Trunk Pacific Railway Companies. These were nominally private companies, but the construction of their lines was made possible by dominion and provincial subsidies and guaran-

tees. Their common stock was chiefly issued for services to promoters and contractors and represented no actual cash investment and the roads never were profitable undertakings, although up to 1914 Canadian Northern was able to meet its obligations from its own resources. While the aid rendered to the Canadian Northern was largely in the form of subsidies and guarantees, a large amount of direct aid was given to the Grand Trunk Pacific, but the financial scheme for this undertaking mainly relied on guarantees, first, by the government, and second, by the Grand Trunk Railway Company.

The Grand Trunk Railway is strongly entrenched in the eastern part of Canada and has many United States connections. Its western terminus is on Lake Huron. In 1903 it was planned to extend the Grand Trunk System right across the continent to Prince Rupert and eastwardly to Quebec. The portion of the line west of Winnipeg was to be built by the Grand Trunk Pacific Company with large government assistance, while the line east of Winnipeg was to be built by the government and leased to the Grand Trunk, the Grand Trunk Railway proper holding the entire share capital of the Grand Trunk Pacific.

The Canadian Northern System was started as a local line in Manitoba in 1896 and built up in the prairie provinces a system which by 1906 comprised more than 2,400 miles. The Canadian Northern had to depend for westbound rail traffic on what the companies in the east handed to it. On the traffic which it had in the west it lost the long haul to the east. It was natural, therefore, that the company should reach out to the east. It was equally natural that the Grand Trunk Company should reach out to the west. There was an opportunity here for coöperation between these two companies which,

however, was not availed of, with the result that by 1916 Canada had three transcontinental systems, the Canadian Pacific, the Canadian Northern and its connections, and the Grand Trunk-Government System. Under the war conditions existing the new lines were unprofitable and there was imminent danger that the private investors in these enterprises would suffer great loss through the inability of the companies to meet their charges. In this emergency the dominion government stepped in and took over these new lines. As the object of the government in taking over the railways was to protect the holders of the bonds, they naturally took them over on the basis of their bonded indebtedness. No effort was made to protect the holders of common stock. Such holders got from the government only the value of the road which was in excess of the bond issue. That value and that surplus was determined by arbitration in the case of the Canadian Northern and was placed at \$10 million. The government had previously acquired possession of 400,000 shares of the capital stock in consideration of guaranteeing certain bonds of the company, so that the \$10 million went to the holders of the 600,000 remaining shares. In December of 1918 the Canadian government owned lines were merged with the Canadian Northern for unified control and operation. The year ending December 31, 1919, was therefore the first complete year of operation of this greatly enlarged government system of roads.

As the Grand Trunk Railway Company had declined to carry out its agreement to operate the eastern section of the Grand Trunk Pacific and, in March, 1919, also notified the government that it could not continue the operation of the Grand Trunk Pacific, the government declined to relieve the Grand Trunk of its obligations in regard to the Grand Trunk

Pacific unless the Grand Trunk lines were included in the national system. This was arranged for in 1919. The amount to be paid for the capital stock is to be fixed by arbitration. Pending this the Grand Trunk will be operated by a committee of management of five, two to be appointed by the government, two by the Grand Trunk and the fifth to be chosen by the four so appointed. On completion of the transaction the Grand Trunk and allied lines will be merged with the Canadian National System. When this is accomplished the Canadian National System will own upward of 20,000 miles of road or more than half of the entire Canadian railway mileage. The greater part of the other half will be owned by the Canadian Pacific and allied lines.

The following tables, for which we are indebted to the Canadian Department of Railways and Canals, give a complete statement of the railway mileage of Canada and also a statement of the rolling stock on December 31, 1919, and the earnings for the calendar year 1919:

CANADIAN RAILROAD STATISTICS

MILEAGE

December 31, 1919

MILES OF ROAD:—

	Miles
Canadian National System	13,727
Including—	

	Miles
Canadian Northern	9,479
Intercolonial	1,592
Prince Edward Island	278
National Transcontinental	2,002
Branch lines	376

13,727

MILES OF ROAD:—Continued

To which will shortly be added the Grand
Trunk System, including—

	Miles	
Grand Trunk Railway	3,578	
Grand Trunk Pacific	1,794	
Grand Trunk Pacific branch lines	1,036	
Central Vermont	125	
St. Clair Tunnel	1	
	<u>6,534</u>	<u>6,534</u>
Canadian National System		20,261
Canadian Pacific and allied lines		14,824
Small independent lines		2,063
American lines and extensions in Canada		2,284
Ontario Government		328
Industrial roads		<u>139</u>
Canadian Railroad Mileage		39,899

In addition the Canadian National System
operates following mileage in U. S.:—

Grand Trunk	1,868
Canadian Northern	<u>225</u>
	2,093

Making Canadian National System complete mileage	22,354
The Canadian Pacific also operates 4,948 miles in U. S.	
Making total Canadian Pacific System mileage	<u>19,772</u>

MILES OF TRACK:—

1st main	39,899
2nd main	2,543
Yards and sidings	<u>9,177</u>
Total track	51,619

ROLLING STOCK (All Lines):—

<i>Freight Cars:</i>	No.	Aggregate Capacity tons.
Box Cars	153,520	5,255,121
Flat cars	24,768	817,847
Stock cars	9,189	272,590
Coal cars	18,375	772,800
Tank cars	419	14,340
Refrigerator cars	6,022	180,800
Other cars	4,965	185,797
Total Freight Cars	217,258	7,499,295

Cars in Company Service:

Officers and Pay	154
Gravel	5,298
Derrick	241
Caboose	3,220
Other	8,840
Total	17,753

Passenger Cars:

First Class	2,172
Second Class	618
Combination	396
Emigrant	701
Dining	203
Parlor	164
Sleeping	550
Baggage, Express and Postal . . .	1,513
Other cars in passenger service . .	195
Total	6,512

Locomotives:

xPassenger	1,457
Freight	3,610
Switching	812
Total	5,879

NOTE: x Includes 3 electric locomotives.

OPERATING RESULTS 1919

Calendar Year

Canadian National System

	Operating Revenue	Operating Expenses
Canadian Northern	\$53,562,177.57	\$60,034,023.92
Canadian Government	40,179,380.93	47,728,205.73
Canadian National	\$93,741,558.50	\$107,762,229.65
Net operating deficit		13,943,660.13
Fixed charges not provided for		19,969,710.36
Total net deficit		\$33,913,370.49

Grand Trunk Pacific

The loss on the operation by the Government of the Grand Trunk Pacific was	\$5,555,518
Fixed charges amounted to	8,524,424
Net loss for 1919	\$14,079,942
Increase over 1918	\$3,531,500

Total deficit for 1919 of the lines which will hereafter
compose the Canadian National Railway System . . . \$47,988,312

Grand Trunk Railway

Calendar Years	1919	1918
Gross earnings	\$68,650,188	\$61,504,394
Working expenses	61,455,444	53,362,606
Net earnings	\$7,194,744	\$8,141,788
Rentals and hire of equipment	872,175	883,971
Interest and investments	2,781,145	2,005,629
Total net revenue receipts	\$10,848,064	\$11,031,388
Interest and rents	\$9,498,909	\$9,385,569
Estimated loss on lines in U. S. taken under Federal control by U. S. Railroad Admin- istration	1,343,605	1,637,071
Surplus	\$10,842,514	\$11,022,640
	5,550	8,748
	\$10,848,064	\$11,031,388

Adding the balance of \$233,795 at the credit of net revenue account on the 31st December, 1918, to the above surplus for the past year \$5,550, will make a total balance of \$239,345, to be carried forward to the net year's accounts.

The company again carried the largest traffic in its history, showing an increase of \$7,145,794 in the gross receipts, but this, unfortunately, was more than absorbed by an increase of \$8,092,833 in working expenses.

The results of operation of the Canadian Pacific Railway were as follows:

Canadian Pacific		
Calendar Years	1919	1918
Gross earnings	\$176,929,060	\$157,537,698
Working expenses	143,996,024	123,035,310
Net earnings	\$32,933,036	\$34,502,388
Fixed charges	10,161,510	10,177,513
Surplus	\$22,771,526	\$24,324,875
Pension Fund	500,000	500,000
Balance	\$22,271,526	\$23,824,875
Preferred dividends	3,227,276	3,227,276
Balance	\$19,044,250	\$20,403,621
Common dividends	18,200,000	18,200,000
Net surplus for year	\$844,250	\$2,203,621
Special Income Account		
Special income	\$9,049,342	\$8,128,751
Dividends	7,800,000	7,800,000
Balance	\$1,249,342	\$328,751
Previous balance	14,164,501	13,835,750
Special Income Account		
Surplus	\$15,413,843	\$14,164,501

CHAPTER XIV

Shipbuilding and Marine Activities

IN shipbuilding and matters relating to shipping generally Canada has made surprising strides since 1914. Compared with what the United States has done during the same time, her record may not seem to be very important; but when compared with that of the countries of Europe, and with the rest of the British empire, outside of the United Kingdom, it is notable. Today, in tonnage, Canada stands eighth among the nations and is adding to her register at a rate that seems likely to give her sixth place by the end of 1920.

Shipbuilding for War

Little has been said of Canada's work in building vessels for governments of the allied countries during the war period. Taking into account the very slender proportions of her steel shipbuilding industry in 1914, Canada's record in this respect must be considered extremely creditable. It is practically impossible to get the exact figures of vessels thus built; but it is safe to say that about 900 of one kind or another were turned out for other countries between the Fall of 1914 and that of 1919. The following list, though incomplete, will give a good idea of what was done.

Vessels built	Total
Submarines—Great Britain 20; Russia 12; Italy 6 . . .	38
Armed trawlers—Great Britain 60; France 6	66
Armed drifters—Great Britain 100	100
Coastal motor boats—Great Britain 550; France 36 . . .	586
Steel freighters—Great Britain 24	24
Wooden ships—France 50	50
Total	864

Vessels were also built for Norway and Belgium, so that 900 seems to be quite within the mark.

Fifty years ago, in the palmy days of the wooden ship, Canada possessed a considerable shipbuilding industry. But with the advent of the steel vessel, a decline set in, so that by 1914, the industry was at rather a low ebb. True, the first steps had been taken in the building of steel vessels, but at the outbreak of hostilities, Canada had but two modern steel shipbuilding plants. Today she has seventeen, which are said to be turning out just as good a class of work as is to be found in any country. Some 20,000 men are now employed in the shipbuilding yards of the dominion.

The war gave Canada her great opportunity in shipbuilding. It revived the building of wooden ships and resulted in the establishment on a permanent basis of the business of building steel vessels. It has also provided Canada with a mercantile marine in a sense such as did not exist before the outbreak of the war.

As soon as it became evident that the war would be lengthy, Canadian shipyards began to experience a strong demand for vessels. However, it was not until 1917, when the Imperial Munitions Board began to place orders in Canada for ships, that the industry started to make the headway that has characterized it during the last three years. Its programme called for 90 vessels, 46 wooden and 44 steel, at a total cost of approximately \$70 million.

The awarding of these contracts imparted a strong impetus to the industry. Almost all sections of the dominion benefited, contracts being awarded to yards on both the Atlantic and Pacific coasts, on the St. Lawrence and the Great Lakes. These contracts kept some of the yards employed until well on into 1919.

Shipbuilding for Peace

But with the completing of the Imperial Munition Board's orders empty ways seemed to be in prospect with the consequent throwing of thousands of men out of employment, to say nothing of the loss that would have resulted to the capital thus invested. The desire to prevent this was one of the strong considerations that induced the government to embark on its shipbuilding programme. Besides, the great demand for tonnage made the earning power of ships so high that, as a business venture, the departure seemed to be an assured success.

The desire that Canada should not only be a builder, but should also own and control a large amount of tonnage placed on Canadian register, was another strong reason that led to the adoption of the government's building programme. The dominion had been well-nigh stripped of shipping through the action of the British Shipping Board in requisitioning tonnage from Canadian routes, action having been carried to such an extent that Canadian business was severely handicapped. Therefore it was argued that, if Canada was to continue to advance the money for the building of ships, it should be done under conditions that would ensure the placing of these ships on Canadian register, so that the dominion might, within a comparatively short time, be represented on the high seas by a large and creditable marine. This view ultimately prevailed.

The first government contracts were awarded in the early part of 1918. The administration necessarily had to feel its way; but from the first it was decided that its programme should be of a substantial nature. Up to the end of 1919 contracts for 53 cargo vessels with a tonnage of 320,000 dead-

weight had been awarded. This represents an outlay when the contracts are completed of about \$70 million. By December 31, 1919, 26 vessels had been delivered, 22 of which were in commission.

As already stated, there are seventeen shipyards on the Atlantic and Pacific coasts, St. Lawrence and the Great Lakes, employing more than 20,000 men. There is, of course, a large number of men employed in allied industries. The completion of the government contracts will give work for several months in the yards. Parliament at its last session authorized the government to guarantee the notes of foreign purchasers of vessels made in Canadian yards up to 50 per cent. of the value of the same, the aggregate value of the notes guaranteed not to exceed \$25 million. This action is said to have been prompted by the desire of French shipping interests to place orders for considerable tonnage. Should such orders materialize, the yards would unquestionably be assured of a good tonnage for many months to come.

NUMBER AND TONNAGE OF VESSELS BUILT
AND REGISTERED IN CANADA DURING
THE CALENDAR YEARS 1914-1919

Year	SAIL			STEAM			TOTAL		
	No.	Gross Tonnage	Net Tonnage	No.	Gross Tonnage	Net Tonnage	No.	Gross Tonnage	Net Tonnage
1914	126	24,287	22,590	201	32,423	20,756	327	56,710	43,346
1915	96	13,926	12,581	148	10,372	6,827	244	24,298	18,808
1916	115	20,335	18,634	126	14,537	9,669	241	34,872	28,303
1917	105	23,757	21,180	138	35,310	25,096	243	59,067	46,276
1918	219	52,269	48,076	178	91,724	56,535	397	143,993	104,644
1919	198	55,733	49,923	211	123,897	77,583	409	179,630	127,506

NOTE:—In addition to the above there were 80 vessels of 162,783 Gross and 99,340 Net Tons built in Canada during 1919 and exported without registry, which makes a Grand Total for 1919 of 489 vessels of 342,413 Gross and 226,846 Net Tons.

The Canadian Mercantile Marine

The vessels constructed for the government constitute the Canadian government mercantile marine owned by the government and operated by the management of the Canadian national railways. The placing of these ships in commission has already resulted in opening up a number of new trade routes, notably to the West Indies and Australia.

The facilities offered by the government-owned ships are in addition to shipping facilities which have been offered for years by steamship lines privately owned and operated and by the great liners and fleet of freighters owned by the Canadian Pacific Railway Company. Ships of these older lines have been plying for years between the ports on both sides of the Atlantic and from the Pacific ports of the dominion to Australia, China, Africa, and other points in the East. It is understood that new lines are now being opened from Montreal to Australia and many new ships are said to have been placed on the older lines. Practically all the steamship lines have their own agents in the Far East and are in a position to see that prompt delivery is effected on all shipments and that transshipment of cargo is handled with despatch.

The whole of Canada's foreign trade for a long time to come cannot pass entirely through Canadian ports, as the freight coming in does not equal the freight going out. If they are to pay, ships must have cargo in both directions. Therefore a large part of Canada's exports must go to United States ports, especially as Canada's imports from the United States are much heavier than her exports to our country. For the six years from 1915 to 1920 inclusive her imports from the United States exceeded her exports thereto by \$1,560 million. To pay for this surplus, excess exports must be made to other

countries. Logically a good part of the excess of outgoing cargo over incoming finds its way to American ports for shipment, as it is to these ports that more return cargoes come.

NUMBER AND TONNAGE OF CANADIAN
REGISTERED VESSELS
(00 omitted in tonnage columns)

Year Dec. 31	SAIL			STEAM			TOTAL		
	No.	Gross Ton- nage	Net Ton- nage	No.	Gross Ton- nage	Net Ton- nage	No.	Gross Ton- nage	Net Ton- nage
1914	4,722	501.7	477.4	4,050	744.7	454.9	8,772	1,246.4	932.4
1915	4,625	491.4	465.8	4,132	753.7	463.4	8,757	1,245.1	929.3
1916	4,458	476.9	451.4	4,202	799.1	491.1	8,660	1,276.1	942.5
1917	4,295	473.8	448.2	4,264	853.9	523.2	8,559	1,327.8	971.4
1918	4,202	486.6	460.9	4,366	904.0	555.9	8,568	1,390.6	1,016.7
1919	4,131	515.6	486.4	4,442	982.7	605.4	8,573	1,498.4	1,091.8

Lake and River Traffic

An examination of the map of Canada visualizes the extraordinary facilities which the people of the dominion enjoy for water communication within their own borders. The maritime provinces are almost surrounded by water and their coasts are indented with a great number of fine harbors. The St. Lawrence River and the Great Lakes give communication in summer between the eastern and central provinces, while the west can be reached by way of Hudson Strait and the vast interior of Hudson Bay, although the navigation of Hudson Strait is obstructed by ice for the greater part of the year. There are great rivers and lakes in the west which afford means of communication in summer. Navigation of the interior waterways is obstructed in many places by waterfalls,

but short canals overcome this difficulty while, as we have already seen, the waterfalls afford power for electric energy which is productively used for light and power.

The waterways are extensively utilized for both freight and passenger traffic. The Canadian Pacific Railway Company runs large passenger steamers on the Canadian lakes, while other lines of steamers are maintained thereon and on the Great Lakes. Passenger steamers run daily on the St. Lawrence and other rivers and there are steamers plying between Montreal, Quebec, Nova Scotia, New Brunswick, and Prince Edward Island. The maritime provinces have local steamship lines by which all the important seaports of these provinces may be reached. There are steamer lines on the important New Brunswick rivers, while in the Prairie Provinces in the west they ply on the Red River, Lake Winnipeg, and the Saskatchewan River. There is a steamer service down the great Mackenzie River to Fort MacPherson within a few miles of the ocean. In British Columbia there are steamers running on many of the navigable lakes and rivers in the interior, while there are regular lines of steamers running from Vancouver and Victoria to all important points along the Pacific coast of Canada and the United States. There is also an extensive coasting trade on the Atlantic side; also steamers running from Canadian to American ports.

Canada's Navy

In the chapter on Canada's part in the great war, reference has been made to the important services rendered during the war by the dominion navy, and to the increase in personnel from a very small organization at the beginning of the war to an important organization at its close. So far as we are advised no definite naval programme has been arranged for the

future. Lord Jellicoe, who has just been appointed governor-general of New Zealand, has recently completed a tour of the dominions and colonies with a view to recommending a naval programme for the empire which would provide for greater coöperation on the part of the dominions than was offered by them to the United Kingdom prior to 1914. Canada maintains a naval college which provides a three-year course for cadets, who upon graduation have the opportunity of entering the Canadian royal navy. A certain small percentage of the graduates is also admitted to the Imperial Navy. These men are placed upon the same basis as graduates from the Imperial Naval Colleges of Osborne and Dartmouth. At the termination of hostilities the personnel of the Canadian royal navy consisted of 700 officers and 4,768 men.

The vessels under the Department of Naval Service at the close of the war comprised three depot and training ships, two submarines, three auxiliary patrol vessels and a considerable number of small vessels such as trawlers, armed drifters, armed mine-sweepers, tugs and motor launches.

CHAPTER XV

The British Empire Overseas

THE British empire overseas comprises over fifty distinct governments and is divided into the dominions, colonies and dependencies. There are two classes of colonies, known, respectively, as crown colonies and colonies possessing representative institutions but not responsible government. The dominions possess both representative institutions and responsible government. In the crown colonies the crown has entire control of legislation and the public officers are directly responsible to the home government. In the colonies with representative government the crown has only a veto on legislation, but still retains control of the public officers. In the dominions the crown retains a veto upon legislation but has no control of any public officer, except the governor-general, who is appointed by the crown.

The Crown

The most potent bond of union between the constituent parts of the British empire is that of loyalty to the crown. The nature and quality of this allegiance it is hard to define. It has unquestionably been strengthened by the events of the past six years. From orientals, allegiance to the crown is almost a superstition, while from the people of the dominions it proceeds from an intelligent appreciation of the value of an allegiance to a common head who stands for the unity of that empire upon which it is their proud boast that the sun never sets. This allegiance has carried the empire through many a critical stage and it is believed will do so yet again.

Governmental Relationship Between Great Britain and the Dominions

There are four channels through which Great Britain exercises the slight and yet very real governmental relationship still maintained with the dominions: The governor-general, the power to veto legislation, the control of foreign relations and the right of appeal from the dominion courts to the Judicial Committee of the Privy Council of Great Britain.

The Governor-General

The governor-general is the connecting link between the dominions and the United Kingdom. He has two functions. He is an officer of the mother country appointed to guard her interests and to exercise a great part of whatever control she may still retain. He is also the chief magistrate of the dominion for its own internal government. In both cases he acts as the representative of the crown. As Dr. Lowell says in his book, "The Government of England," "he acts in the former capacity for the crown as titular sovereign of England or of the empire; in the latter for the crown as titular sovereign of the colony. According to this distinction it is commonly said that in matters that affect other parts of the empire or foreign countries he must use his own discretion, or seek instructions from the secretary of state in England; while in matters that affect only the internal affairs of the colony he must follow the advice of his ministers there. Neither branch of this statement is, however, perfectly accurate. * * In spite of responsible government his position in regard to matters purely internal, as well as those which concern the rest of the world, is still a delicate one that may require much sound judgment and tact. His chief usefulness lies,

however, rather in his moral influence than in his legal authority. Like the king his presence is important as a social and ornamental symbol of the empire and, in fact, the growing experience in self-government by reducing the occasions when he is called upon to exercise his legal powers has made the social attributes of greater consequence." A Canadian authority, Sir Joseph Pope, challenges this latter statement. In his authoritative book, "The Federal Government" [of Canada], he says: "The impression prevails in some quarters that under the practical working of the Canadian constitutional system the governor-general has ceased to be a living factor in the government of the country; that the office, while retaining its ceremonial attributes and social prestige, and valuable as the link connecting Canada with the motherland, no longer serves any useful functions that might not—to use a favorite expression of the late Professor Goldwin Smith—be equally well performed by a rubber stamp. This is a misapprehension. The governor-general, while bound to take the advice of his responsible ministers upon all questions appertaining to the government of Canada, whether it is or is not in accordance with his own opinion, possesses in a variety of ways opportunities for modifying that advice in which he may consider its acceptance contrary to law or injurious to the public interest. His elevated position as the king's representative, his aloofness from the prejudices and passions of party strife; and in many instances his wider knowledge and experience of men and affairs, acquired by mingling in the larger sphere of imperial statesmanship—all these considerations combine to render his influence upon the policy of his ministers far from negligible."

The Veto Power of the Crown

The right to refuse assent to legislative enactments is one which is not frequently exercised, yet it is used often enough to make it an important attribute of the slight control maintained by Great Britain over dominion affairs. However, the right of veto has been exercised in Canada on one occasion only since the confederation of the dominion in 1867. This was in 1873, when what was commonly known as the "Oaths Bill" was disallowed as being *ultra vires* of the parliament of Canada.

On one occasion the consent of the governor-general of Australia was withheld and a proposed act referred to Downing Street. This was in connection with the Australian Navigation Act of 1912. In this case the act was finally approved. However, the delay gave time for reflection in regard to the merits of the law so that it is not even yet being enforced in its entirety.

Foreign Relations

Up to the time of the world war there is no doubt, as Dr. Lowell says, that "as regards foreign relations the British empire is treated as a single power and that power is England. Diplomats are appointed, negotiations are conducted and treaties are made on advice of the English ministers." However, the important contributions made in men and money by the dominions toward the success of the world war has led to their taking a position in regard to foreign affairs which may modify in an important way the relations to be maintained in the future with foreign nations. By far the most significant and far-reaching development in this regard was the announcement made simultaneously on May 10, 1920,

in both the British and Canadian Houses of Commons that arrangements had been completed whereby a diplomatic representative of the Dominion of Canada would be stationed at Washington. The announcement said in part: "It has been agreed that His Majesty, on the advice of his Canadian ministers, shall appoint a minister plenipotentiary, who will have charge of Canadian affairs and will at all times be the ordinary channel of communication with the United States government in matters of purely Canadian concern. He will be accredited by His Majesty to the President with the necessary powers for the purpose, acting upon instructions from and reporting direct to the Canadian government. This new arrangement will not denote any departure either on the part of the British government or of the Canadian government from the principle of the diplomatic unity of the British empire.

"The need for this important step has been fully realized by both governments for some time. For a good many years there has been direct communication between Ottawa and Washington, but the constantly increasing importance of Canadian interests in the United States has made it apparent that, in addition, Canada should be represented there in some distinctive manner. * * * In view of the peculiarly close relations that have always existed between the people of Canada and those of the United States, it is confidently expected as well that this new step will have the very desirable result of maintaining and strengthening the friendly relations and coöperation between the British empire and the United States."

Other significant facts acknowledging the right of the British dominions to have a voice in the direction of foreign policy are their signatures to the treaties of peace, formulated

at Versailles in 1919, and their inclusion as voting members of the League of Nations.

The Dominions Partner-Nations in the Empire

The people of the dominions have emerged from the war with a greater desire than ever for national autonomy. While proud of being a part of the British empire and willing, if necessary, to devote blood and treasure to preserving its integrity, yet they insist that the dominions shall henceforth be recognized not in any sense as colonies or possessions, but in the words of Sir Robert Borden, in the fullest sense as "partner-nations in the empire." It is important to weigh these words carefully. It is clear that emphasis should be placed on the word "partner." While the war has tied the dominions closer than ever to Great Britain, still there is without doubt a strong feeling that they should now enter into all the rights and privileges and obligations of full partnership in regard to national and international affairs. However, we may be sure that in working out the terms of such a closer partnership, it would not be the desire or intention either of Great Britain or of the dominions that there should be any disturbance of the present arrangements by which each dominion and Great Britain is solely responsible for its respective budget.

The Dominions and National Defense

For a number of years now Great Britain has had no responsibility for the internal defense of any one of the dominions, each dominion having organized its own militia for such purpose, but the burden of maintaining the imperial navy has been borne almost entirely by Great Britain. In the years just preceding the war, and especially during the war,

the dominions made some contributions to the naval strength of the empire and it is quite possible that in future they may be willing to assume larger obligations in this direction. In fact, under Lord Jellicoe's guidance important developments in this direction are now in process.

The Systems of Justice

The systems of justice throughout the empire have a close resemblance to each other. The Judicial Committee of the Privy Council of Great Britain, which sits in London and in which the self-governing dominions and India are represented constitutes a supreme court of appeal for the entire empire. To this body are referred questions of law. It has no jurisdiction in criminal cases. However, the privilege of appeal to the Judicial Committee of the Privy Council is a valuable one, as it gives the people of the dominions the benefit of the safeguarded jurisprudence of the mother country. If the reader desires to pursue this question further he will be interested in reading extracts from Dr. Lowell's "The Government of England" and Sir Joseph Pope's "The Federal Government" [of Canada], which will be found printed respectively on pages 159 and 168.

The Five Dominions

These are five political divisions of the British empire which possess the status of dominion. They are the Dominion of Canada, the Commonwealth of Australia, the Dominion of New Zealand, the Union of South Africa and the Dominion of Newfoundland.

Within their boundaries reside substantially all of the white population of the empire living outside of the United

Kingdom. King George reigns over more than 440 million human beings of whose number 62 million, less than 15 per cent., are of the white race. The remainder are of the brown, yellow, red and black races—natives of the countries where the British flag has been planted since the days of Queen Elizabeth by the merchant adventurers and armies of the kingdom.

Canada and the Empire

Canada is the largest, most thickly populated and most fully developed of the dominions.

In shaping the fiscal policy of the empire, Canada has borne an important part. She initiated the tariff preference in favor of Great Britain, subsequently followed by other dominions, and this policy led in turn to the denunciation by Great Britain of several important commercial treaties then in force, including the then treaty with Germany. Political capacity of a high order has been visible in the evolution of government institutions, in the settlement of racial and religious problems and in the development of the place the country now holds in the constitutional system of the empire.

CHAPTER XVI

The Government of Canada

THE Dominion of Canada as now constituted came under British power at various times, some portions by settlement and others by conquest or cession. Nova Scotia was occupied in 1627. The Hudson Bay Company's charter conferring rights for the territory to the east and west of the bay was granted in 1670. The portion which now constitutes the Provinces of Quebec and Ontario, along with New Brunswick and Prince Edward Island, was ceded to Great Britain by France in 1763, while Vancouver Island was acknowledged to be British in 1846, and British Columbia was occupied in 1858.

British North America Act

The Dominion of Canada was organized July 1, 1867, under the terms of the British North America Act which became a law on March 29 of that year. The dominion was then composed of upper and lower Canada, now known as Quebec and Ontario, of Nova Scotia and of New Brunswick. The act provided for the admission of British Columbia, Prince Edward Island, the Northwest Territories and Newfoundland. The Northwest Territories were subsequently divided, the province of Manitoba being created and admitted into Confederation in 1870 and the provinces of Alberta and Saskatchewan in 1905. All of these political divisions, except Newfoundland, have availed themselves of the provisions of the act, so that to-day the dominion is a confederation of

nine provinces: Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Prince Edward Island, Quebec and Saskatchewan. In addition to the provinces there are the territories. These are the Yukon and the portion of the Northwest Territories not heretofore incorporated in one or other of the provinces. The territories are under the control of the federal government. Reference to the map printed on pages 64 and 65 will make clear the relative locations of the several provinces.

Origin of Name "Dominion"

The choice of a name for the new confederation was a matter of some difficulty. One suggestion was that the selection be made by Her Majesty Queen Victoria. No one seems to know how the choice finally was made. The designation "Kingdom of Canada" was preferred by many, but it is stated that Lord Stanley (afterward Fifteenth Earl of Derby), then secretary of state for foreign affairs of the United Kingdom, objected on the ground that the name "Kingdom" might wound the susceptibilities of the Americans. In the end the term "Dominion" was selected and the inspiration for the use of this term is said to have been found in the Book of Zachariah, Chapter IX, verse 10, where the following phrase is to be found; "Dominion shall be from sea even to sea and from the river even to the ends of the earth"; a very apt description of the extent of the vast territories then being brought under the new government.

The Federal Government

The form of government is defined by the British North America Act. Thus Canada and the United States alike have

written constitutions. However, there is a marked distinction between the two countries as to the manner in which the states or provinces are related to the federal government.

The constitution of the United States enumerates the powers of the federal government, thus leaving all powers of government not taken over by the federal government to be exercised by the state governments. On the contrary, the British North America Act enumerates the powers of the provincial governments, leaving all powers not so enumerated to be exercised by the dominion government. In addition to enumerating the subjects in regard to which the provincial legislatures may exclusively make laws, the act also enumerates a series of subjects with regard to which the dominion parliament may legislate. However, the act specifically says that this enumeration is made "for greater certainty but not so as to restrict the generality" of the legislative power granted "to make laws for the peace, order and good government of Canada with regard to all matters not coming within the class of subjects of this act assigned exclusively to the legislatures of the provinces."

One marked difference between the government of the two countries lies in the fact that the question as to what is a constitutional exercise of power by the federal government or by the state or provincial governments is decided in the case of the United States by our supreme court, a body within and of the nation, whereas any misunderstandings or disputes of this character are decided for Canada by an outside authority, for the judgments of the supreme court of Canada may be appealed* for final adjudication to the Judicial Committee of the British Privy Council.

*See page 168 for details.

The Cabinet System Prevails

A very important difference between the Canadian form of government and that of the United States lies in the fact that in the former country the cabinet form of government prevails, while in the United States there can be no change in the government until the fixed terms for which officials and legislators are elected expire. The reader will bear in mind that under the cabinet system of government in case the policy of the ministry is not endorsed by the popular branch of the legislature the ministers resign and parliament is dissolved. An appeal is then taken to the people in the form of a new election for the popular branch. Then, in accordance with the will of the people as thus recorded, either the old ministry returns to power or a new ministry is formed.

The Executive

The executive power of the government of the Dominion of Canada as also the chief command of the naval and military forces is vested in the king, represented by the governor-general, whose term of office is usually five years.

The Cabinet

The governor-general is advised by a cabinet consisting of a prime minister who usually holds the portfolio of secretary of state for external affairs, the ministers of the departments of finance, justice, trade and commerce, militia and defence, labour, railways and canals, interior, marine and fisheries (which includes the department of the naval service), customs and inland revenue, immigration and colonization, agriculture, public works, mines, the secretary of state of Canada, the president of the privy council, the postmaster

general and one or more ministers without portfolio, appointed at the discretion of the prime minister. There is not a fixed number of cabinet ministers. A minister frequently holds more than one portfolio or heads more than one department of government.

In practice the cabinet is formed by the leader of the dominant political party in the Houses of Commons, who is summoned by the governor-general for the purpose, and empowered to form a cabinet, thereby assuming the functions of prime minister. Cabinet ministers are members of either the Senate or the House of Commons. When a member of the House of Commons is appointed minister of a department of government or to any cabinet office to which emolument is attached, he must resign and seek reelection. In the case of a member of the Senate this rule does not obtain as the Senate is an appointed and not an elected body.

The government holds office as long as it has the confidence of the popular branch of parliament.

Sir Joseph Pope in his book, "The Federal Government" [of Canada], from which we have already quoted, says: "No more ingenious and effective scheme for the conduct of public affairs has been devised by the wit of man than that known as 'Responsible Government,' under which the balance of the old-time contending elements in the state is harmoniously adjusted without doing violence to cherished convictions.

"The crown maintains unimpaired its ancient dignities and splendor, and rests far more securely upon the affections of the people than at any previous time in history; while the controlling power of government has passed to the people's representatives, in the House of Commons. As a constitutional writer has well observed: 'Such is the wonderful elasticity and adaptability of our system of government that

modern life has taken possession of the ancient form and has not rent it. It has expanded with every stage of national growth, for while the ancient prerogatives still exist, they can be lawfully exercised only upon the advice and sanction of a responsible minister—a minister and a ministry responsible to the commons house of parliament.’”

The Parliament

The legislative power is exercised by the parliament consisting of two houses called respectively the Senate and the House of Commons. The members of the Senate are nominated for life by summons of the governor-general under the great seal of Canada. There are at present 96 senators, of whose number 24 are from the province of Ontario, 24 from Quebec, 10 from Nova Scotia, 10 from New Brunswick, 4 from Prince Edward Island, 6 from Manitoba, 6 from British Columbia, 6 from Alberta and 6 from Saskatchewan. The total number may not exceed 104. Each senator must be at least thirty years of age, a native or naturalized subject and must reside in the province for which he is appointed and be possessed of property, real or personal, of the value of \$4,000 located within such province.

The House of Commons is elected by the people for five years, unless sooner dissolved. At the present time there is one representative for every 30,819 persons, the province of Quebec always having 65 members, and the other provinces proportionately according to their populations at each decennial census. The Houses of Commons now consists of 235 members, 82 for Ontario, 65 for Quebec, 16 for Nova Scotia, 11 for New Brunswick, 15 for Manitoba, 13 for British Columbia, 4 for Prince Edward Island, 16 for Saskatchewan, 12 for Alberta and 1 for the Yukon Territory.

All money bills must originate in the Commons and the Senate may not even amend such bills from the lower house, although it may reject them. The power of rejection is seldom employed and although the Senate possesses equal rights with the Commons in initiating legislation, other than that pertaining to finance, the right is not as much exercised.

The Provincial Governments

The nine provinces each have a separate elected legislative assembly, with a lieutenant-governor as executive head appointed by the governor-general on the advice of the prime minister. In the provinces of Quebec and Nova Scotia, in addition to the legislative assembly, there exists also a legislative council, an appointed body possessing coördinated powers of legislation with the assembly. The cabinet system of government prevails in the provinces also.

The provinces have full powers to regulate their own local affairs and dispose of their revenues, provided they do not interfere with the action of the policy of the central administration. In the preceding paragraphs of this chapter, under the caption "The Federal Government," we have already noted the interrelated powers of the federal and provincial governments.

CHAPTER XVII

The Dominion Financial System

THE federal finances of the Dominion of Canada are conducted on what is known as the budget principle. The rules of the House of Commons with respect to the expenditure of public money and the imposition of financial burdens upon the people are strictly in conformity with English practice. All the checks and guards on the different expenditures developed by English practice as the result of experience for several centuries are in full force in Canada.

The underlying principle in regard to taxation is that every opportunity must be given for free and frequent discussion so that parliament may not, by sudden and hasty votes, incur any expenses or be induced to approve of measures which may entail unnecessary burdens upon the country.

Recommendation and Consent of the Crown

All financial legislation must be recommended by the crown. The British North America Act, to which reference has already been made, in its 54th section, expressly declares that "it shall not be lawful for the House of Commons to adopt or pass any vote, resolution, address or bill for the appropriation of any part of the public revenue or of any tax or impost, to any purpose that has not been first recommended by the message of the governor-general in the session in which such vote, resolution, address or bill is proposed." According to English usage the recommendation may be given by any minister, but in Canada it is usually given by the

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premier or the leader of the government in the House of Commons.

In addition to the recommendation of the crown which must precede every grant of money, it is necessary also that the consent of the crown should be given to every bill. This consent may be given either by special message or by a verbal intimation from a minister, the last being the usual procedure in such cases.

Money Resolutions—Acted on Only After Notice

Another check imposed upon the expenditure of public money is the requirement under the rules of the House of Commons that "if any motion be made in the House for any public aid or charge upon the people, the consideration and debate thereof may not be presently entered upon; but shall be adjourned until such further day as the House shall think fit to appoint; and then it shall be referred to a committee of the whole House, before any resolution or vote of the house do pass thereon."

The Budget—The Annual Estimates

Financial legislation is based upon estimates carefully prepared in advance under the direction of the minister of finance. The main estimates appear in a blue book, and comprise, as far as possible, the proposed expenditures for the public service for the next fiscal year, which commences on the 1st of July and ends on the 30th of June following. But, in addition to these, there is generally a supplementary estimate of sums still required to meet certain expenditures which properly fall within the current year ending on the 30th of June. It is also always necessary to bring down,

before the close of the session, one or more supplementary estimates for the coming year in order to provide for services which had been forgotten in the main estimates, or in regard to which a decision had not been reached when the latter was made up. All these estimates are divided into votes or resolutions, which appropriate specified sums for services specially defined. They are most carefully arranged under separate heads of expenditure, so as to give the fullest information possible upon all matters contained therein. The blue book is made up in several columns; one showing the amount, if any, voted during the previous year; another, the amount to be voted for the next year, another (when necessary) the increase or decrease of expenditure for the same service. Each resolution specifies; when necessary, every item on which there is to be a particular expenditure. For instance, under the head of a vote for harbors for a province there will be a number of distinct items for each harbor for which money is required.

The Committee of Supply

These estimates are considered by the House of Commons in committee of supply, and include all the grants that have to be annually voted by parliament. When the resolutions are under consideration in committee, it is the duty of each minister to explain every vote that appertains to his own department, and in this way the House is able to come to a correct conclusion as to its necessity.

Permanent Appropriations

Besides the grants voted in the estimates there are certain payments which have not to be provided for annually, but

are defrayed out of the consolidated fund in conformity with various statutes. These payments comprise: costs and charges incident to the collection and management of the revenue; interest of the public debt; salaries to the governor-general, lieutenant-governors, judges, and so forth; loans; grants to provinces under the Union Act; and all other permanent payments. Whenever it is necessary to make any changes with respect to these permanent grants, they must be introduced in the shape of resolutions in committee of the whole, and bills founded thereon. The votes in committee of supply are for the service of the fiscal year only. Grants intended to continue for a series of years must be passed in the way just stated.

The Committee of Ways and Means

The committee of ways and means regulates the mode in which the expenditures authorized by the committee of supply are to be met. In other words, it provides the revenue or income necessary to pay the expenses of the public service. It is also in this committee that all propositions relating to the tariff and to the taxation of the country must be considered.

Parliamentary Procedure in Connection with Financial Legislation

At the opening session of parliament immediately after the speaker has communicated to the house the speech from the throne, the leader of the government makes a formal motion that "the speech of his excellency the governor-general to both houses of parliament of the Dominion of Canada be taken into consideration." When the speech has been duly considered and the address in answer formally agreed to,

the minister of finance next moves the formation of the committees of supply and of ways and means. Before the house goes actually into committee of supply the finance minister will bring down the estimates by message from the governor-general and when the message has been read in English and French the minister will move "that the said message, together with the estimates accompanying the same, be referred to the committee of supply."

In accordance with the English constitutional doctrine that the redress of grievances is to be considered before the granting of supplies, and in accordance with the immemorial usage of the English parliament, this is the time when the opposition party is given free rein to discuss all sorts of matters in connection with which it is desired to obtain information or in connection with which it is wished to make political capital. It is then open to the opposition to move an amendment against any portion of the government's policy, censuring the ministers for what they have done or left undone. Each time the minister moves the house into committee of supply a fresh amendment may be moved and as such amendments, if carried, constitute votes of want of confidence, they may entail a resignation of the government.

The Budget Speech

The budget is considered by the house in committee of the whole upon recommendation of the minister of finance that "the speaker do now leave the chair for the house to go into committee of ways and means," and, in his speech in this connection, known as the budget speech, the minister of finance makes a statement of the state of the finances and presents his recommendations as to the manner in which

the revenue necessary to meet the proposed expenditures shall be raised. At the conclusion of the budget speech the minister of finance gives notice that he will move certain resolutions necessary to give effect to his recommendations.

The Appropriations or Supply Bill

Previous to 1888 it was the custom to delay the consideration of the estimates until the budget was ready, and consequently in some years the supply was greatly delayed; but in that year the more convenient practice was adopted and has been followed ever since of going into committee of supply as soon as possible after the commencement of the session and making considerable progress therein before the annual statement of the finance minister is made to parliament.

When all the estimates have passed through the committee of supply the minister of finance will move to go again into committee of ways and means for the purpose of considering the usual formal resolution for granting certain sums out of the consolidated revenue fund of Canada "towards making good the supply granted to His Majesty." These resolutions must be reported and agreed to formally by the house before the bill founded thereon can be introduced.

Important Precedents

Certain facts in regard to procedure should be carefully noted here. In the first place, all financial legislation must by immemorial English usage originate in the House of Commons. The House recognizes the responsibility of the executive for the finances as complete. The minister of finance is

made responsible for the estimates of expenditure. It is not customary for the House to change any of these estimates; in fact no resolution for the increase of expenditure or for any new expenditure not included in the budget will be considered by the House. In order to keep the executive responsibility intact, the House gives the executive what it asks for, but holds it to a strict accountability both for the correctness of the accounts and for efficiency and accuracy in the management of the services.

After the finance bill has been adopted by the Commons it then goes to the Senate for the consideration of that body. It is invariably the custom of the Senate to return the bill unamended to the Commons.

A supply bill can only be presented for the assent of the sovereign by the speaker of the House of Commons. This is done at the close of the session in connection with the ceremonies incident to proroguing parliament. The governor-general then signifies, through the clerk of the Senate, in both the English and French languages the royal assent in the following words: "In His Majesty's name, his excellency the governor-general thanks his royal subjects, accepts their benevolence and assents to this bill."

NOTE:—The foregoing chapter is based largely upon "Parliamentary Procedure and Practice in the Dominion of Canada," by Sir John George Bourinot; Edition of 1902, edited by Thomas D. Flint.

For Reference

DOMINION FUNDED DEBT

March 31, 1920

For further details see numbered descriptive notes following the table

(000 omitted)

Title of Loan	Date of Issue	Interest %	Interest Payable	Redeemable or Payable	Outstanding £	\$
PAYABLE IN LONDON						
1. Sterling Loan	. 1884	3½	June & Dec.	After June 1, 1909 On June 1, 1934	4,822=	23,467
2. Sterling Loan.	. 1888 to 1894	3	Jan. & July	On July 1, 1938	7,661=	37,271
3. Sterling Loan Can. Pac. Ry	. 1888	3½	Jan. & July	On July 1, 1938	3,093=	15,056
4. Sterling Loan	. 1897	2½	April & Oct.	On Oct. 1, 1947	1,004=	4,888
5. Sterling Loan	. 1908 to 1912	3½	Jan. & July	After July 1, 1930 On July 1, 1950	28,163=	137,059
6. Sterling Loan	. 1913 to 1915	4	April & Oct.	After Oct. 1, 1940 On Oct. 1, 1960	19,300=	93,927
7. Sterling Loan	. 1915	4½	May & Nov.	After May 1, 1920 On May 1, 1925	5,000=	24,333
						<u>336,001</u>
PAYABLE IN NEW YORK						
8. War Loan . . .	1915	5	Feb. & Aug.	On Aug. 1, 1935		873
9. Public Service Loan	1916	5	April & Oct.	On April 1, 1921		25,000
Public Service Loan	1916	5	April & Oct.	On April 1, 1926		25,000
Public Service Loan	1916	5	April & Oct.	On April 1, 1931		25,000
10. Gold Notes . .	1919	5½	Feb. & Aug.	On Aug. 1, 1921		15,000
Gold Bonds . . .	1919	5½	Feb. & Aug.	On Aug. 1, 1929		60,000
						<u>150,873</u>

DOMINION FUNDED DEBT—*Continued*

March 31, 1920

For further details see numbered descriptive notes following the table

(000 omitted)

Title of Loan	Date of Issue	Interest %	Payable	Redeemable or Payable	Outstanding \$
PAYABLE IN CANADA					
Sundry old loans	.....	...	.....	.....	205
<i>War Loans</i>					
11. First	Nov.'15	5	June & Dec.	On Dec. 1, 1925	43,245
12. Second	Sept.'16	5	April & Oct.	On Oct. 1, 1931	54,399
13. Third	Mar.'17	5	Mar. & Sept.	On Mar. 1, 1937	92,653
14. Fourth (1st Victory)	Nov.'17	5½	June & Dec.	On Dec. 1, 1922	513,623
				On Dec. 1, 1927	
				On Dec. 1, 1935	
15. Fifth (2d Victory)	Nov.'18	5½	May & Nov.	On Nov. 1, 1923	677,963
				On Nov. 1, 1933	
				On Nov. 1, 1924	
16. Sixth (3d Victory)	Nov.'19	5½	May & Nov.	On Nov. 1, 1934	583,918
17. Debenture Stock	.....	...	.....	On June 1, 1920	238
" "	.....	...	.....	On June 1, 1921	363
" "	.....	...	.....	On Oct. 1, 1922	19,342
18. War and Dom. of Can. Savings Cfts. and Stamps	.....	...	.....	Three years from date of issue	10,366
19. Bond Loan	Sept.'16	3½	Mar. & Sept.	After Sept. 1, 1925	2,000
				On Sept. 1, 1928	
20. Bond Loan	Sept.'16	4½	June & Dec.	After Sept. 1, 1925	65,207
				On Sept. 1, 1945	
					<u>2,063,522</u>
21. Total Funded Debt.					<u>2,550,398</u>

See page 38 for full debt statement

DESCRIPTIVE NOTES

1. Average issue price £91 18 8d, June, 1884.

Redeemable at par—6 months' notice.

Sinking fund, cumulative, not less than ½% per annum—purchases at or below par but Government may invest in other securities if price is above par. Coupon bonds and Stock (i.e., Registered).

Denominations £100, £500, £1,000. Coupon bonds can be registered. Registered stock not convertible into coupon bonds. Transferred free of stamp duty. No fees. Listed London Stock Exchange.

2. Average issue price £4 million. June, '88 £95 1s; £397.721 in '91 and '92, £94 to £95; £2¼ million July, '92, £92 os 6d; £1½ million '93 and '94, £97 9s 2d; £1,524,559 for conversions. Coupon bonds and Stock. Denominations, etc. same as No. 1. Listed London Stock Exchange.
3. Issue price 95 in 1888, on security of unsold lands Canadian Pacific. Direct obligation of Dominion since 1906. Coupon bonds and Stock. Denominations, etc., same as No. 1. Listed London Stock Exchange.
4. Average issue price £91 10s 5d. All registered stock. Transferred as No. 1. Listed London Stock Exchange.
5. Issued: £3 million, Feb., '08, par.; £5 million, Oct., '08, par; £6½ million, July, '09, 98½; £4 million, Jan., '10, 99; £5 million, May, '10, 99½; £5 million, Feb., '12, 98. Sinking Fund, ½% per annum, created June, 1909. All stock transfers as No. 1. Listed London Stock Exchange.
6. Issued: £3 million, Sept., '13, 99; £4 million, Dec., '13, 97; £5 million, Mar., '14, 99; £5 million, June, '14, 98 and £2,300,000 sold on market 1914-15. Sinking Fund ½% per annum. All stock transfers as No. 1. Listed London Stock Exchange.
7. Issued Mar., '15, 99½. All bonds to bearer. Denominations £100, £500, £1,000. Listed London Stock Exchange.
8. Issued in exchange for 5% Gold Notes which were sold in July, '15 and matured July, '16 and '17. Issue price of notes 100 and 99½. Bonds are payable in New York City, in United States gold coin or in Montreal. Principal and interest exempt from Dominion taxes, including income tax.
9. Issued Mar., '16 at 99.56 for Series due '21, 97.13 for Series due '26, 94.94 for Series due '31. Payable principal and interest at Agency Bank of Montreal, in New York City, in United States gold coin. Exempt from all present and future Dominion taxes, including income tax. Coupon and registered bonds. Denominations: Coupon \$1,000; registered, \$1,000, and multiples; interchangeable. Transfer agents: Agency Bank of Montreal, New York. Listed New York Stock Exchange.
10. Issued July, '19: Notes at 90¼. Bonds at 97. Principal and interest payable "in gold dollars" at Agency of Bank of Montreal in New York City, free of Dominion taxes, "but this will not exempt from Canadian taxes payments made in discharge of the Notes or Bonds when beneficially owned by persons residing or ordinarily resident in Canada." Notes in Coupon form \$1,000. Bonds in Coupon form \$100 and \$1,000, exchangeable in amounts of \$1,000, or multiples, for fully registered bonds. Interchangeable.
11. WAR LOANS:—First issued at 97½ flat (96.27 and interest); second at 97½ flat to (97.04 and interest); third at 96 flat (94.068 and interest); fourth at 100 flat (98.65 and interest); fifth at 100 and interest; sixth at 100 and interest.
10. Coupon and registered bonds. Interchangeable. Denominations: Coupon \$100, \$500, \$1,000 all issues; also \$50 last three issues; registered, \$1,000 and \$5,000 all issues; \$500 last three issues; \$50 and \$100 Fourth and Fifth issues; also large denominations of \$10,000, etc., in all but First issue.
- TAX EXEMPTIONS. First to Fifth issues, inclusive, exempt from Dominion taxes, including income taxes. Sixth issue exempt from taxes, except income taxes.
- PRINCIPAL AND INTEREST of all issues payable in principal Canadian cities; of Third issue in New York also. Interest on registered bonds payable by cheque mailed to owner.
17. DEBENTURE STOCK:—This appears to be similar in character to British Treasury Bonds.
18. WAR SAVINGS CERTIFICATES:—These are in the familiar form. They are sold at a discount and paid off at par at the end of three years, thus the interest is realized at the time the principal is collected.

QUOTATIONS DOMINION BONDS

LONDON STOCK EXCHANGE

Calendar Years Name		1910	1911	1912	1913	1914	1915	1916	1917	1918	1919
3½% Bonds 1909-34. (Int. June, Dec.) . . .	H	101	101½	110½	96	95¼	88½	79½	77½	77¾	81
	L	99¼	100	96¼	91½	94	88½	77	76	77	78
3% Loan, 1938. (Int. Jan., July)	H	92¼	93¼	91¾	85¾	85¾	.....	83	69	72	73
	L	90¾	90¾	89¾	82½	85¾	.. .	70	67¾	68	69
3½% Can. Pac. Land Grant, 1938, (Int. Jan., Jul.)	H	102¼	101½	99¾	96¾	95¼	86¾	78¼	75¼	74	78
	L	99½	99¼	94¼	90¾	89	85¼	72½	72	71¼	73½
3¼% Bds. Conv., 1914- 19. (Int. Jan., July)	H	102¾	103	101¾	99¾	102	98¾	97	99	101¾	.....
	L	100	100	99	96¾	97¼	91¼	94¾	93½	97½	.....
4½% Bds. red. 1920-25. (Int. May, Nov.) . . .	H	.....	.....	.....	.....	.....	100½	97½	95½	96¾	97
	L	.....	.....	.....	.....	.....	94¾	93½	91¾	92¼	91¼

†MONTREAL STOCK EXCHANGE

Calendar Years Name		1914	1915	1916	1917	1918	1919
War Loan, 1925	H	.....	97½	100	99	97	101
	L	.....	97½	97	94¾	93	96
War Loan, 1931	H	.....	.....	99½	99	96½	101¾
	L	.....	.....	98	91¾	92	96
War Loan, 1937	H	.....	.....	.....	96	97¾	102¼
	L	.....	.....	.....	92	91¼	96½
Victory War Loan, 1922 . .	H	.....	.....	.....	.....	99½	102½
	L	.....	.....	.....	.....	98	98
Victory War Loan, 1923 . .	H	.....	.....	.....	.....	.....	102½
	L	.....	.....	.....	.....	.....	98½
Victory War Loan, 1927 . .	H	.....	.....	.....	.....	101¼	105
	L	.....	.....	.....	.....	99½	100
Victory War Loan, 1933 . .	H	.....	.....	.....	.....	.....	106¾
	L	.....	.....	.....	.....	.....	101¼
Victory War Loan, 1937 . .	H	.....	.....	.....	.....	102¼	107¾
	L	.....	.....	.....	.....	101	102

† Furnished by Head Office, Bank of Montreal.

QUOTATIONS DOMINION BONDS—Continued

†TORONTO STOCK EXCHANGE

War Loan, 1925	H	.....	97½	99½	98½	96½	100½
	L	.....	97½	97	95	93½	95½
War Loan, 1931	H	.....	.....	99½	98½	96½	101½
	L	.....	.....	97½	91½	92	95½
War Loan, 1937	H	.....	.....	.....	95½	97½	102
	L	.....	.....	.....	92	91½	96½
Victory War Loan, 1922 . .	H	.....	.....	.....	.....	100	101½
	L	.....	.....	.....	.....	98½	98½
Victory War Loan, 1923 . .	H	.....	.....	.....	.....	.....	102
	L	.....	.....	.....	.....	.....	98½
Victory War Loan, 1927 . .	H	.....	.....	.....	.....	101	104½
	L	.....	.....	.....	.....	98½	99½
Victory War Loan, 1933 . .	H	.....	.....	.....	.....	.....	106½
	L	.....	.....	.....	.....	.....	100
Victory War Loan, 1937 . .	H	.....	.....	.....	.....	102½	107½
	L	.....	.....	.....	.....	101	100½

†Furnished by Head Office, Bank of Montreal.

NEW YORK STOCK EXCHANGE

Calendar Years Name		1914	1915	1916	1917	1918	1919
<i>Dominion of Canada</i>							
5% Gold Bonds 1921	H	.....	.....	100½	100½	99	99½
(Int. Apr. & Oct.)	L	.....	.....	99½	90	93½	96½
5% Gold Bonds 1926	H	.....	.....	101½	100	97½	98½
(Int. Apr. & Oct.)	L	.....	.....	97½	89	90½	92
5% Gold Bonds 1931	H	.....	.....	102½	100½	99	98½
(Int. Apr. & Oct.)	L	.....	.....	96½	87½	88½	90½

NATIONAL WEALTH

INVENTORY OF THE NATIONAL WEALTH OF CANADA

Farm values (lands, buildings, implements and live stock)	\$5,078,208,763
Mines and forests	1,200,000,000
Fisheries (capital invested)	47,143,125
Steam and electric railways	1,500,000,000
Canals	125,000,000
Shipping	35,000,000
Telegraphs and telephones	100,000,000
Urban real property (based on assessments of 140 localities)	3,500,000,000
Manufacturing machinery	567,262,538
Stocks of raw materials and manufactured goods . .	745,546,310
Stored products of the farm, fisheries and the mine .	500,000,000
Household furnishings, clothing, carriages, motors, etc.	800,000,000
Specie	210,000,000
Imported merchandise in store	250,000,000
<hr/>	
Total	\$14,658,160,736

or, say, sixteen billions, if * * * provision for current production be admitted.

R. H. COATS, *Dominion Statistician*,

In Journal Canadian Bankers Association

October, 1919.

NATIONAL INCOME

We have nothing in Canada corresponding to the data yielded by income tax administration in Great Britain, and it will be some time before the want is supplied. The method accordingly of estimating national wealth from income tax, made familiar in the Old Country by Sir Robert Giffen (land being capitalized at 26 times its annual yield, houses at 15 times, railroads at 28 times, etc., etc.), is not possible here. In the census of 1911, however, every individual on salary or wages was asked to state his or her total earnings during the preceding year. A question of this kind, requiring the exercise of memory, and in many cases involving calculation, does not always yield satisfactory information. The results, however, may be briefly analyzed:

Replies were received in the case of 1,367,557 of age 15 or over (1,124,383 male, 243,174 female), their total earnings being \$742,620,600, an average of \$592.75 for each male and \$313.12 for each female. For some 260,716 additional individuals on salaries and wages (203,947 male, 56,769 female) the information was not usable. Estimating for these, however, on the same basis, additional earnings of \$132,662,700 are shown, or a grand total of \$881,283,000.

There remains to estimate for persons operating on their own account, whose earnings take the form of profits, professional fees, etc. First, as to their number: the total male population in 1911 was 3,821,995, of whom 1,198,175 were under 15 years of age. Deducting the latter, and also the total males on salaries and wages as above, the remainder, 1,295,490, represents the number on their own account, a total including Indians and Eskimos and a certain proportion of dependents. Of females operating on their own account no record has been compiled, but their numbers would doubtless bring the total to 1,300,000.

As to the income of these, no estimate is possible. It would seem natural to place it higher per capita than that of the salaried and wage-earning class. At \$800 per year, the total would be over \$1,000,000,000. Altogether a national income approaching \$2,000,000,000 would seem a not unfair estimate for 1911. The rise in wages and prices would probably bring this to \$2,400,000,000 in 1918.

R. H. COATS, *Dominion Statistician,*
In *The Monetary Times*, Toronto,
January 3, 1919.

THE JUDICIAL COMMITTEE OF THE PRIVY COUNCIL OF GREAT BRITAIN

The Privy Council never meets as a whole now except for ceremonial purposes. Its action is, indeed, still legally necessary for the performance of many acts of state, such as the adoption of Orders in Council, and the like; but this is a formal matter, requiring the presence of only three persons, who follow the directions of a minister, for all cabinet ministers are members of the Privy Council. The Council does real work to-day only through its committees. Of these the most notable is the Judicial Committee.

The House of Lords is not the only court of last resort in England. There is another with much the same personnel, but quite a different jurisdiction. This is the Judicial Committee of the Privy Council, which hears appeals from the ecclesiastical courts, from the Channel Islands and the Isle of Man, from the colonies and dependencies, and from English courts established by treaty in foreign lands. It is amazing that any one tribunal should be able to deal intelligently with the manifold systems of law that come before the Judicial Committee. Upon its docket one may find a case from Australia involving English Common Law or Equity, another involving Roman French Law from Canada, a third requiring a knowledge of the Roman Dutch Law of Guiana or the Cape, still another that turns upon Hindoo or Mohammedan law in India, and so on through the long list of British possessions over the whole face of the earth. The capacity of the court to deal with all these questions is the most astonishing because its regular members are for the most part the same men who sit as judges in the House of Lords.

Formerly the Judicial Committee was in fact as well as in law a very different body from the House of Lords sitting as a court, and its paid judges were wholly distinct; but, when salaried life peers were created, it was thought that they might be charged with the bulk of the work in both courts. At first two Lords of Appeal in Ordinary were appointed, with power to sit in the Judicial Committee; and a

further provision was added that instead of filling any vacancies which occurred among the principal paid members of that Committee, a third and fourth Lord of Appeal in Ordinary should be appointed. This has long since been done, with the result that a few years ago the Judicial Committee was made up of very nearly the same persons who did the judicial work of the House of Lords. All the latter, being privy councillors, were entitled to sit in the former, and almost all the members of the Judicial Committee were, in fact, Lords of Appeal. Of late, however, the desire to draw the bonds of the empire closer has led to giving places on the Committee to colonial judges, and this has increased the members of that Committee who do not sit in the House of Lords. Suggestions have been made from time to time that one great court of last resort should be created for the whole empire; but at the present moment it seems less nearly a fact than it was a dozen years ago. The Judicial Committee is now composed of one or two former Indian or colonial judges appointed for the purpose, who receive eight hundred pounds a year between them; of the Lords of Appeal in Ordinary; of all members of the Privy Council who hold, or have held, high judicial office in the United Kingdom, or (not exceeding five in number) in the self-governing colonies; and of two other members of the Privy Council if the Crown thinks fit to appoint them.

Neither in the House of Lords nor in the Judicial Committee is the form of giving a judgment that which is customary in courts of law. The law lords address the House one after another as if they were arguing a motion before the whole body of peers, and the action taken in the case is entered in the Journals of the House as a part of its proceedings. A decision of the Judicial Committee, on the other hand, takes the form of advising the crown what ought to be done, with a full statement of the reasons therefor—advice which is, of course, invariably followed. There is another matter relating to the method of giving judgment that is more substantial. The usual custom, in courts that have derived their traditions from English sources, of publishing dissenting opinions may have a bad effect when the court is nearly evenly divided. The decision in such a case is not perfectly conclusive upon

the point of law involved, for if some of the judges who made up the majority die or resign, and others are appointed in their stead, it may be possible to raise the question again, and perhaps with a different result. This difficulty is avoided by both of the British courts of last resort, although in different ways. The House of Lords now holds itself incompetent to overrule its own decisions; and the Judicial Committee, which delivers a single collective opinion, is forbidden to make public any dissent or difference of views among its members.

A. LAWRENCE LOWELL,

The Government of England.

Vol. I, p. 79 and Vol. II, pp. 465-468.

THE GOVERNMENT OF CANADA

The following paragraphs, condensed from Sir Joseph Pope's "The Federal Government," supplement the statements in the text in regard to Canada's form of Government.

THE PRIVY COUNCIL

The British North America Act provides that there shall be a council to aid and advise the governor-general, which shall be styled the King's Privy Council for Canada. The members of this council are appointed by the governor-general on the advice of his ministers, and may be removed by the same authority. Otherwise their tenure of office is for life. "Once a Privy Councillor, always a Privy Councillor" is substantially true. George III struck Charles James Fox's name from the roll of his Privy Council, and a few similar cases are recorded in the long course of English history, but, so far, none in Canada. A privy councillor takes a special oath of secrecy and signs the council-roll in the presence of the governor-general. He receives no commission or other evidence of appointment, nor does any emolument attach to the office. The position, nevertheless, carries with it a high place in the social and official world, and is a distinction rarely bestowed on any public man other than as a necessary qualification for cabinet office. Members of the Privy Council are entitled to be styled "Honourable," and this for life.

The membership of the Privy Council is not limited in number. In 1912 there were sixty-nine Privy Councillors. Of these, eighteen were in the cabinet; forty-two had held cabinet office, but were not in the ministry; eight, although never holding cabinet office, had been speakers of the Senate or of the House of Commons. The remaining member was Lord Strathcona and Mount Royal.

The Canadian Privy Council, as distinct from the cabinet, has never been called together.

In theory the Privy Council is the body upon whose advice the government of the country is carried on, but it has been superseded in practice by the cabinet, to which have passed the advisory and consultative functions which in times gone by were exercised by it.

THE CABINET

The cabinet is in name and in fact a committee of the Privy Council, selected by the prime minister from among those councillors who possess the confidence of the House of Commons. It is also in a real and true sense, as Bagehot well says, "a board of control chosen by the legislature out of persons whom it trusts and knows, to rule the nation. . . . A combining committee—a hyphen which joins—a buckle which fastens the legislative part of the state to the executive part of the state. In its origin it belongs to the one, in its functions it belongs to the other."

As will be inferred from the foregoing, a cabinet minister must possess a seat in one or other branch of the legislature—not necessarily on appointment, but within a convenient period thereafter. If not actually a privy councillor, he must be sworn of that body as a condition precedent to his entry into the cabinet, for it is from the ranks of the Privy Council that cabinet ministers are drawn. In law the Privy Council remains the advisory body—the cabinet is unknown. It is undoubtedly a singular fact that this body, all-powerful under the British system of government, should have no legal existence. The cabinet is never mentioned in any act of parliament. It keeps no record of its own proceedings, or even of its meetings, which are secret. No secretary or clerk is present thereat. Its number is not fixed. The names of its members are not to be found collectively in any public document. They are not even officially announced, save by the prime minister, verbally on the floor of parliament, and then, it may be, months after the cabinet has been formed. Should the life of a ministry lie wholly within a parliamentary recess, that is to say, should the new cabinet never have met parliament, its composition might not be officially known at all. No formalities attend admission into its ranks, nor is any oath taken by a member of the cabinet as such.

The function of the cabinet is to advise the governor-general in all matters pertaining to the carrying on of government. Questions are freely discussed at cabinet meetings and in cases of pronounced differences of opinion are sometimes decided by vote; but once a line of policy is agreed upon, all the members are equally responsible for the decisions arrived at and are equally bound to support and defend them or resign.

There is not a fixed number of cabinet ministers. As a rule there are from thirteen to fifteen members. In the formation of the cabinet care must be taken to see that the various geographical and racial divisions of the dominion are represented with some regard to their relative importance.

While the heads of public departments of the government of Canada are always cabinet ministers, it is well to remember that the cabinet minister, who is at the same time head of a department, occupies a dual position. He is an adviser of the crown. As such he receives no formal appointment. He takes no oath of office, is paid no salary, and his tenure is wholly dependent upon the prime minister. But, in addition to this, he is head of a department of government. As such he fills a public office to which he is appointed by commission under the great seal. He receives a salary for the discharge of duties which he takes an oath to perform. Thus it is that after the dissolution of a cabinet by the prime minister's death or resignation, the heads of departments continue to perform ministerial functions until their successors are appointed. A cabinet may contain one or more members who hold no ministerial office. These are called ministers without portfolio.

The British constitutional principle requires every act of the crown to be performed on the advice of responsible ministers. In England the cabinet assembles informally to advise the sovereign on matters of public policy, not to perform any ministerial act. These meetings are quite distinct from those of the Privy Council which are held for the transaction of the business of state, such as the issue of proclamations, orders-in-council bringing statutory provisions into effect and other formal acts of government, for it is only through privy councillors that the crown can do anything. The function of the English Privy Council is to carry into effect advice given to the sovereign by the cabinet or to discharge duties imposed upon it. The king is never present at cabinet meetings. His Majesty, however, frequently presides at privy councils.

Canada has in actual practice combined the functions of these two bodies. The cabinet stands in the same advisory and consultative relation to the governor-general in respect of general questions of policy as the English cabinet occupies toward the sovereign. It sits also at the same time as a committee of the privy council and as such transacts a vast amount of administrative business which in England is dealt with

through the Privy Council, or departmentally by individual ministers. This is indeed its principal function. The governor-general never attends the deliberations of his cabinet.

THE PRIME MINISTER

The leading personage in the government unquestionably is the prime minister—the choice at once of the governor-general and of the people, and the principal intermediary between the two. As chief adviser of the crown, it is he who moulds and directs the policy of the administration. To him belongs the right of choosing his colleagues, subject to the approbation of the governor-general. He can at any time call for the resignation of any minister, and his withdrawal from office carries with it the dissolution of the cabinet. The decisions of the ministry on questions of public policy are communicated to the governor-general by the prime minister, who is the spokesman for the cabinet, and upon whom rests in a very special degree the responsibility for advice tendered to the sovereign's representative.

The prime minister is the acknowledged chief of the dominant party in parliament. Strange as it may seem, this office which unites in itself the authority of the crown and of the people is unknown to the constitution.

The office of prime minister is conferred by the governor-general, who upon the resignation of his advisers "sends for"—in theory, whomsoever he pleases—in practice, for the recognized leader of the opposition in parliament, and entrusts him with the formation of a new administration. The person to whom this duty is confided confers with the leading members of his political party, and when ready submits the names of his proposed colleagues to the governor-general, who signifies his approval of the arrangements.

As the governor-general is virtually restricted in his choice of a chief adviser to the leader of the opposition or to the person whom that gentleman may recommend, the prime minister, in turn, is limited in the formation of his cabinet by various considerations, one being that his new colleagues must be members of one or other branch of the legislature and must also be acceptable to the House of Commons, or more particularly to the members coming from the province which they are to represent in the cabinet. It is, of course, desirable that the cabinet minister should be *persona grata* with, or at least not personally objectionable to, the governor-general.

THE MINISTER OF FINANCE

The minister of finance, as regards weight and influence, is generally looked upon as second only to the prime minister. His full title is the minister of finance and receiver general. He is the member of the cabinet primarily responsible to parliament for the finances of the country. He has the principal voice in the imposition and regulation of taxation. He negotiates the loans from time to time required for the public service. He largely controls the expenditures. It is his business to ask parliament to vote the amount necessary to the carrying on of the government. Nor is his influence in fiscal matters confined to the House of Commons. It is felt in every branch of the executive government and is a potent factor in the council chamber itself, where he sometimes discharges the not altogether agreeable duty of criticizing and, it may be, of opposing such projects of his colleagues as would involve a larger expenditure than in his judgment the resources of the country should be called upon to bear.

It is the duty of the minister of finance to lay before the cabinet the estimates made by the different departments for sums needed for the service of the ensuing year. These estimates when finally agreed upon are submitted to the House of Commons [as explained on page 145,] and when the supply bill becomes a law a minute of the Privy Council is passed on the recommendation of the minister of finance by which these supplies are placed at the disposal of the other departments. When a department wishes to draw upon any special vote the deputy minister asks the auditor general for a credit on any of the banks in which public moneys are kept. These credits are issued by the minister of finance upon application of the auditor general. The advances are subsequently recouped to the bank by the minister of finance. In certain circumstances, instead of a credit, cheques are issued, but in both cases it is the minister of finance who holds the purse and thus exercises an effective check upon the public expenditure.

The finance department is charged with the management of the public accounts, debts and obligations of the dominion. It also controls the currency, including the issue and redemption of dominion notes. The government savings banks and the department of insurance are under the direction of the minister of finance.

Some weeks before parliament meets, estimates of the sums needed for the services of the ensuing year are submitted by the various departments to the minister of finance, who lays them before the cabinet, where they are discussed item by item. In these discussions the minister fills the rôle of a censor, with a view to curtailing, as far as may be consistent with the requirements of the public service, the demands of his colleagues upon the Treasury.

The estimates, when finally agreed upon, are brought down to the House of Commons by message from the governor-general, without whose authority no measure involving any charge upon the people can be received or considered. This message is presented by the minister of finance, who moves that it and the estimates be referred to the committee of supply. Parliament votes the money in the form of a grant to the sovereign. When the royal assent is given to the supply bill, a minute of the privy council is passed, on the recommendation of the minister of finance, by which the governor-general, as the representative of the crown, "releases" these supplies, placing them at the disposal of the several departments.

THE TREASURY BOARD

The minister of finance is assisted in the performance of his duties by the Treasury Board, which is in effect a committee of the privy council and is composed of the minister of finance and any four of his colleagues in the government nominated by the governor in council. The deputy minister of finance is the secretary of this board.

THE AUDITOR GENERAL

Closely connected with the treasury board is the auditor general, an officer appointed by the governor in council at the instance of parliament, for the more complete examination of the public accounts and for reporting thereon to the House of Commons. In order to insure his independence of the executive, it is provided that he shall hold office during good behavior—that is to say, he can be removed from his position by the governor-general only on an address of the Senate and House of Commons.

The duty of the auditor general is to keep watch over the public expenditure, see that no expenditures are made in excess of appropriations by parliament or without the authority of the governor in council. It is his duty to see that all contracts have been carried out in accordance with their terms and to examine and audit the accounts of the several departments. He is required to lay before the House of Commons his annual report. He reports to the governor-general in council through the minister of finance, who also presents his report to the House of Commons.

THE SUPREME COURT OF CANADA

The Supreme Court of Canada was constituted in the year 1875 by act of parliament of Canada 38 Vict. cap. 2. It consists of a chief justice, styled the chief justice of Canada, and five puisne† judges, of whom at least two must be from the Quebec bench or bar. Five judges form a quorum, but if both parties consent to a hearing before four judges, such hearing may take place. Should the full court be evenly divided on a case, the judgment of the court below stands.

The Supreme Court possesses an appellate civil and criminal jurisdiction throughout the dominion, but no appeal is permitted in a criminal case except as is provided in the criminal code. In civil cases an appeal lies to the Supreme Court from the highest court of final resort in each province, subject to certain conditions which are set out in chapter 139 of the revised statutes of Canada.

The judgments of the Supreme Court are declared by the organic statute to be final and conclusive in all cases, saving the royal prerogative, which means that no appeal from the court's decisions can be carried to England except by leave of the Judicial Committee of the Privy Council. Leave to appeal is sought by petition addressed to His Majesty the king in council. Such petitions must be accompanied by duly authenticated documents embodying the judgments of the Supreme Court which is appealed from, and the factums in the case. Leave to appeal is not as a rule granted unless the amount at issue is considerable, or some important principle is involved. Admiralty cases coming from

† A judge of inferior rank.

the Supreme Court by way of appeal from the Court of Exchequer may in turn be appealed to the Judicial Committee of the Privy Council, without specific permission from that tribunal.

Important questions of law or fact touching any matter may be referred by the governor in council to the Supreme Court for hearing and consideration, and the opinion of the court upon any such reference, although advisory only, is, for all purposes of appeal to His Majesty in council, treated as a final judgment of the court between parties.

The Senate and House of Commons may also refer to the Supreme Court, or to any two judges thereof, for examination and report, questions relating to private bill legislation in either house. Advantage is, however, seldom taken of this provision.

Authorities

AS this book is the outcome of special research we have had little occasion or opportunity to refer to other books or publications. Credit is given in the text to such as have been of value.

Canadian friends and government officials have been most courteous and helpful in furnishing data which we required. The statements in regard to the dominion finances and in regard to the natural and developed resources, domestic and foreign trade, railroads and shipping are based upon data furnished by the departments at Ottawa having these matters in charge, while Mr. Frederic Hudd of the Dominion Bureau of Information in New York has actively coöperated with us with a view to making the book an authoritative source of information in regard to Canadian affairs.

We are under special obligations to Mr. John Mackay of Toronto for valuable suggestions and interpretative memoranda in regard to Canadian affairs in general and especially in regard to governmental and financial methods and the credit situation. Mr. C. L. Foster, agent in New York of the Canadian Bank of Commerce, has been good enough to give us important data in regard to the Canadian banking system of chartered banks and other valued suggestions. In the preparation of the chapter on banking, we have also had the coöperation of other Canadian banking friends who have given us the benefit of their knowledge of the banking and credit situation.

We take this opportunity to cordially record our thanks to each and all of those mentioned above.

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